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IRAQI AND BANCA NAZIONALE DEL LAVORO PARTICIPATION IN EXPORT-IMPORT PROGRAMS

HEARING

BEFORE THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

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IRAQI AND BANCA NAZIONALE DEL LAVORO PARTICIPATION IN EXPORT-IMPORT BANK PROGRAMS

WEDNESDAY, APRIL 17, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS,
Washington, DC.

The committee met, pursuant to call, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the committee] presiding.

Present: Chairman Gonzalez, Representatives Annunzio, Oaker, Barnard, Torres, Kleczka, Kennedy, Hoagland, Cox, Wylie, and McCandless.

The CHAIRMAN. The committee will please come to order.

Again, as I think last week, we had some unanticipated developments; we had some caucus meetings that were called for chairmen and a few other things.

Last week, of course, it was the unfortunate accidents and the change in the programs.

Today, we may be interrupted, because the House will go into session at 10 a.m., and it will be going into the budget resolution. And I am sure there will be some amendatory processes.

The focus of today's hearing, of course, is Iraq, the BNL participation and both as relating to the Export-Import Bank and its programs.

The hearing will also touch upon the lack of accountability over the process by which billions in taxpayer funds through guarantees are utilized to promote the sale of U.S. agriculture and commercial products to Third World nations such as Iraq.

Between 1985 and the Iraqi invasion of Kuwait, the Export-Import Bank insured U.S. exports to Iraq totaling \$267 million; \$50 million of that total were financed by BNL.

Now that Iraq has defaulted on its outstanding Export-Import Bank obligations, the taxpayer stands to lose about \$50 million or just a little bit over.

Now, compared to the other losses, this is a very small amount that the taxpayer ultimately must pay, and that in comparison to the Commodity Corporation exposure is small.

The size of the Export-Import Bank program was roughly one-twentieth the size of the CCC program. The reason behind the disparity in the size of the two Iraq programs was Export-Import's determination that Iraq was not creditworthy.

I think this shows how, as we have had in other cases in hearings, how some of our institutional forces are vigorous and are there.

In addition, Iraq was suspended several times from the Export-Import Bank's program because of nonpayment. During the same time and same period that the Export-Import Bank was making these adjudications, Iraq was defaulting on the Export-Import Bank guarantee.

Just a mile away at the CCC, Iraq was obtaining ever larger allocations of credit; in fact, over \$5 billion in total.

Because of its tough stance against loaning billions to Iraq, the Export-Import Bank was repeatedly chastised by the staff of the State and Commerce Departments.

During 1989, criticism from State and Commerce Department staff was severe enough to cause the Export-Import Bank Board of Directors to reconsider its negative conclusion regarding Iraq's creditworthiness. Even Ambassador April Glaspie visited the Export-Import Bank to lobby on behalf of U.S. businesses in Iraq.

Now this may sound in retrospect harsher than the environment at that time should lead us to conclude. I think in my own judgment the Ambassador was just faithfully carrying out the policy of her superiors, the State Department superiors.

Lucky for the taxpayer, the revised country review did not persuade Export-Import Bank to change its mind about Iraq and this is why I say in repeat that we should be very, very grateful to the Export-Import Bank and its leaders and directors who despite—I can tell you, those are pretty severe pressures.

Export-Import Bank also faced intense pressure from the United States export community. For example, at one U.S.-Iraq business forum reception, an Export-Import Bank employee was introduced to Mr. Robert Abboud, whom we had here last week, the Chairman then of the U.S.-Iraq business forum, as quote, "The person at Export-Import Bank responsible for holding up business with Iraq," end of quote.

The Export-Import Bank should be commended for acting responsibly and sticking by its decision not to loan money to countries it felt was not creditworthy.

Today, the taxpayer is better off because of the Export-Import Bank's diligence. Ironically, Iraq turned to BNL to finance several of the projects that Export-Import Bank refused to finance.

Both the CCC and the Eximbank programs with Iraq were approved by the inter-agency National Advisory Council on International Monetary and Financial Policies, commonly referred to as NAC.

The NAC is chaired by the Secretary of the Treasury, with other members, including the heads of the Department of State and Commerce, the U.S. Trade Representative, the Federal Reserve Board, the International Development and Cooperation Agency and the Export-Import Bank.

The NAC is responsible for making decisions regarding the allocation of foreign credit, including the CCC and the Export-Import Bank programs.

Despite Eximbank's warnings about Iraq's inability to repay its debts, and the fact that Eximbank had repeatedly suspended Iraq

for not paying its bills, the NAC approved over \$5 billion in CCC guarantees to support the sale of U.S. agricultural goods to Iraq.

The NAC also violated several of its own internal operating policies in approving CCC and Eximbank programs for Iraq.

Future hearings will explore the NAC process in more details.

At this time, also, I wish to incorporate with my opening statement a document on the occasion of this hearing that we have obtained that have, for instance, Iraq's and BNL's utilization of Eximbank programs, the chronology of U.S. Eximbank's relationship with Iraq, summary of Iraq and BNL participation in Eximbank programs, the list of potential exports to Iraq, and paper entitled "Mythology about Iraq," and then finally an overview of the Eximbank country risk analysis for Iraq.

These I will recommend to my colleagues who may wish to pursue the study in connection with these hearings a little bit further.

They are, I think, very revealing now, and so with that, I will ask if Mr. Annunzio has any statement.

[The information referred to can be found in the appendix.]

Mr. ANNUNZIO. Yes. Thank you, Mr. Chairman.

I do have a statement. I want to congratulate you for calling this hearing on the participation of Iraq and the Banca Nazionale del Lavoro (BNL) in Export-Import Bank (Eximbank) programs.

I am increasingly concerned with the activities of the Eximbank. Just last month, I joined 93 of my colleagues in writing Secretary of State James Baker to express my opposition to another Eximbank matter, the Bush administration's initiative to permit the Eximbank to provide financial guarantees in support of military sales to both industrialized and nonindustrialized nations.

This initiative would reverse 17 years of prudent policy by both Democratic and Republican administrations not to finance military sales through Eximbank. I urge the administration not to pursue this highly unwise and short-sighted initiative.

Today, we will explore another Eximbank controversy: The involvement of the Export-Import Bank and Banca Nazionale del Lavoro in providing credit to Saddam Hussein's Iraq.

Since 1985, Eximbank guaranteed \$267 million in U.S. exports to Iraq, in spite of the fact that Iraq frequently failed to meet payments. Of that amount, BNL was responsible for \$50 million. Eximbank's internal analyses supposedly could not support these extensions of credit, but they were made nonetheless as a result of pressure from Iraq and the U.S. State Department.

I find these reports very disturbing. I look forward to hearing from the witnesses and receiving a full explanation of this matter.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

I will ask Ms. Oakar, who is chairing the Subcommittee on International Institutions and Trade, if you have any opening statement.

Ms. OAKAR. Mr. Chairman, just very briefly.

Interestingly enough, Mr. Macomber was before our subcommittee several days ago, and I think does a good job as the permanent Director of the Eximbank.

But, Mr. Chairman, I want to thank you for having this hearing. I know you and your staff have done very, very important work on this, and I compliment you for that work.

I think what we are really examining today is instructive, and I think it is important. And that is to what extent, and I would like to ask unanimous consent to put my entire statement in the record.

The CHAIRMAN. Without objection, so ordered.

[The The prepared statement of Ms. Oakar can be found in the appendix.]

Ms. OAKAR. Basically, Mr. Chairman, what we are examining is to what extent should pressure from the administration, with respect to these kind of quasi-independent financial areas that help some of our business communities and so on, to what extent should foreign policy on the part of one department of the administration or views relative to foreign policy impact on entities like the Eximbank.

I mean, I think that is really what the relevant question is, for me anyway. And it is very interesting to see that when votes were taken, the Eximbank was kind of the odd person out in not supporting what Treasury and other members of NAC wanted to do, but then ultimately voted to extend further credit to Iraq, not under its own bank but under the CCC.

And I think therein lies the difficulty. I think the staff of the Eximbank deserves an awful lot of credit for analyzing the situation comprehensively and doing a very, very good job.

But the real question I have is when you know you are doing the right thing and you really feel something, some situation, as was the case in this Iraqi credit extension, was not the right thing, to what extent are individual entities like the Eximbank put under pressure by other departments of the government.

My own way of thinking is that you ought to be able to certainly—certainly you are part of the administrative manifestation of government, but you ought to be able to act independently, too, particularly when your analysis does not belie what the administration wants.

And so I give you high marks for understanding what the real root of the problem was, beyond what others did, other departments did.

But I guess I would give you low marks for succumbing to the pressure. Maybe you had no other choice; I don't know. And I guess that is the purpose of the hearing.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Let me say in connection with that, Ms. Oakar, that our prime and fundamental and only reason for conducting these hearings is legislative intent, and it has to do with the total absence of regulatory oversight in the case of activities of international financial entities doing business in the United States.

We just don't have it. We are the only country that doesn't have any kind of a structural oversight and accountability.

It is a dangerous situation. It continues to be. No assurances that even now as we are congregating here today we have even higher

volumes of activities, perhaps not involving guarantees, but involving national interests.

We have a tremendous amount of, in excess of, well over \$630 billion of this activity in this country, and it is amazing how just a fraction of that can be used to leverage extremely rich combinations of capital, for purposes that only God in Heaven knows what, from drug laundering to anything else.

So that is our prime purpose. Now, in the course of that, we find the need to communicate with other committees, such as the Foreign Affairs Committee, perhaps one or two others, that have oversight responsibilities on some aspects of their agency, Government Ops, for instance, we are going to have to give them some briefing and give them some of the documentation because in the light of the Eximbank's consciousness and conscientiousness and responsibility, we lose sight of the fact in practice in real life how difficult it is to stand up to intra-administration and superior pressures.

It is very difficult, if you will study some of these documents, you will see that at some of these sessions, you had everybody from the CIA to State Department and what not present there and obviously every one of them in agreement that business should have been done with Iraq.

Once President Reagan removed Iraq in 1983 from the list of terrorist nations, the door was open to do business. And the rest is history.

But in examining this, we are not interested—that is, our prime concern isn't to go out and investigate all these doings; our prime concern is to show the need and as near as we can the immediacy of the need to reform and restructure our regulator system.

Federal Reserve Board clearly and amply demonstrates its inability to know what is going on. The State chartered institutions under our dual system are not able to do it. So we are in a dilemma, and we are trying to expedite as much as we can while the staffs—the staff's counsel is preparing suggested legislation that we hope to get into.

But that is the prime purpose, Ms. Oakar.

Ms. OAKAR. Thank you.

The CHAIRMAN. Does any other Member have any other opening statements here?

Mr. Torres.

Mr. TORRES. Well, Mr. Chairman, I think that your calling for this hearing is very timely, given last nights and this morning's revelations about this kind of administration attitude, as the drama on Iraq unfolds. Contrary to intelligence reports that the administration was receiving, nonetheless it proceeded to provide Iraq with important military parts and other technology through Jordan.

I would perceive this to be sort of the tip of the iceberg, but through your investigations and a hearing, you have already stated that this is not an investigation, we can attempt to develop legislation that will really bring to light these, what I tend to believe are outrageous actions on the part of government at a time like this.

The CHAIRMAN. Thank you very much.

If you will yield to me, Mr. Kennedy, I will recognize Mr. Wylie. He arrived a little late, so I will ask Mr. Wylie for any opening statement.

Mr. WYLIE. Thank you very much, Mr. Chairman. I appreciate the courtesy, and I am sorry to be a little late.

I appreciate you having these hearings today, and we do want to hear, of course, from the Eximbank and Mr. Macomber and Director Rodriguez a little later here.

From the reading of today's testimony, I think we can conclude that the Eximbank has done a very good job of analyzing Iraq's foreign credit situation. In retrospect, I wish the Commodity Credit Corporation had been as vigilant as the Eximbank.

But before we rush to judgment or incriminations involving administration policies, I think it is wise to view the Iraqi credit situation from the perspective of U.S. foreign policy during the time that credits and guarantees were extended.

And I know that it is worth noting that there is far more governmental scrutiny as far as U.S. trade policy as it affects foreign policy concerns than there are for other exporting countries, especially in Europe.

And we want to look at it from that perspective, too. There is another important difference between our government and those of the European community, and our system has more public accountability as evidenced by the hearing today, and many other governments would sweep a similar controversy under the rug.

So I want to commend you, Mr. Chairman, for your vigilance in holding these hearings, and I want to commend our witnesses for their willing helpfulness in trying to get to the bottom of this.

But I would ask unanimous consent to enclose my entire statement in the record at this point.

The CHAIRMAN. Certainly, without objection, so ordered.

[The prepared statement of Hon. Chalmers P. Wylie can be found in the appendix.]

The CHAIRMAN. I want to thank you for your kind words, thank Mr. Torres for his kind words.

Mr. Kennedy.

Mr. KENNEDY. I want to again add my voice to those that are offering praise this morning for the leadership that you have shown on this issue because I think that without your vigilance, the activities of BNL and the complicity that has been applied by the U.S. Government would never have come to the fore.

I think that your leadership has also demonstrated that these hearings aren't just designed to lay blame, but they are designed to try to deal with the problem a more fundamental way.

And I think one of the concerns that I have that came out in the testimony that came forward last time the Eximbank came before the committee were some of the longer term reforms that are necessary to make sure that the Eximbank has the capability of checking with the other agencies in the United States to make sure that goods and services that they are providing export subsidies to are not, in fact, on any kind of list that would indicate that these are activities that should not be condoned.

And as I understand it, there are over 180 different transactions that have been included, or approved, by your—one of the depart-

ments, I think it was the Engineering Department, within the Eximbank that have not, where we have not gotten any kind of assurance that they are reviewed by the CIA or other agencies to determine whether or not these goods and services are on any kind of black list.

So I want to make sure that we are going to hear from you today as to exactly what reforms are being undertaken by the agency to make sure that you are aware of the kinds of activities that ought not to be permitted and, in fact, are illegal by this country.

So I am concerned, Mr. Chairman, that I am not going to be able to stay for the whole hearing this morning, but I do want to make certain that Chairman Macomber has the—answers those issues, and if he cannot do it while I am here, Mr. Chairman, I would certainly appreciate it if he could do it in writing back to me at some point.

Thank you very much, Chairman Gonzalez.

The CHAIRMAN. I will ask unanimous consent that all members have an opportunity to present in writing any questions they may wish to submit to Mr. Macomber and the other witnesses.

Mr. Kleczka.

Mr. KLECZKA. Mr. Chairman, in an effort not to delay the testimony, I would ask unanimous consent that my statement be entered into the record.

Chairman GONZALEZ. Certainly. Without objection, so ordered.

[The prepared statement of Hon. Gerald D. Kleczka can be found in the appendix.]

The CHAIRMAN. The chair will recognize our two panelists for their opening presentation.

It is a privilege to welcome the Chairman, Mr. John Macomber, and the Director, Ms. Rita Rodriguez, and recognize you at this moment, and thank you very much for submitting your statements.

We have an opportunity to look them over, and that we deeply appreciate.

Mr. McCANDLESS. Mr. Chairman, before the gentleman begins, you have another gentleman down here at the other end. I just wanted you to know I was here.

The CHAIRMAN. If the gentleman wishes to make an opening statement.

Mr. McCANDLESS. I do not have an opening statement.

The CHAIRMAN. I apologize to the gentleman from California.

Mr. McCANDLESS. Thank you, Mr. Chairman, and I assume your remarks imply that my submitted written testimony will be included in the record.

The CHAIRMAN. Yes, sir, indeed it is.

[The information referred to can be found in the appendix.]

STATEMENT OF JOHN D. MACOMBER, CHAIRMAN, EXPORT-IMPORT BANK

Mr. MACOMBER. With your permission, I would like to highlight briefly a few important points and then I have a few other comments.

Since I am going to be the first of the witnesses today, I would like to go through a brief history of the chronology of the Bank's

dealings with Iraq that are relevant to the session that you are going to have today, not only with Dr. Rodriguez, but with my colleagues, from the professional staff of the Bank, who are coming on the second panel.

From July 1987 until early August 1990, the Bank was open, in Iraq but we provided only short-term insurance cover and that cover up to 360 days for American exports.

That is the absolute minimum type of opening that our Bank can have. We set up \$200 million outside limit on this revolving line, if you will.

Now, prior to 1987, as the chairman said in his comments, the Bank had been off cover for the roughly the preceding 16 months, because of what essentially all of us would call payment difficulties.

So as I say, in July 1987, we opened cautiously and we opened with the fact that all of the arrears had been paid up.

In other words, the Iraqis at the time that we opened had a clean slate under the short-term program. We opened up essentially to gather repayment experience, that is to test Iraqi creditworthiness.

And this was despite, as you understand, understandable and considerable pressure, which is perfectly normal, by the way, from the American business community to open up longer lines, and not to mention the competition from other foreign export credit agencies that were open across the board, short, medium, and longer term which again the Chairman referred to in his remarks. .

During this time, the Bank monitored the coverage on a continuing basis because of again creditworthiness concerns. I should say in response to the Representative from California, that whenever there was a credit problem, the Bank suspended any further cover until the Bank was current on all Iraqi debts. This was the Bank's policy until the President signed the Executive order in August 1990.

Once we reopened in 1987, Iraq continuously requested that we expand the coverage to include medium- and long-term transactions, which are really the basic part of our programs, and by far the most valuable.

And that request as you have referred to, was declined. At no time did the Bank ever allow its exposure to get beyond \$200 million, and we always kept it well within the 360 days which is required by the program.

Now, these are the relevant facts behind this thing. But at the heart of the issue, and what you will have to decipher directly or indirectly from all of the written statements, is the basic credit criteria that has always existed since the days when this Bank was set up in the New Deal. Behind Eximbank's credit analysis, and there has to be reasonable assurance of repayment on any transaction the Bank supports.

Mr. Chairman, I think I am correct in saying that this is actually written in the legislation. The Bank has not been established as a profit-making agency, but at the same time, we are not a grant agency either.

And that sets the tone for all that we do. The phrase reasonable assurance of repayment translated in the case of Iraq into a will-

ingness by the Bank to limit what we were doing to short-term transactions.

That is the Bank's credit evaluation process which you are going to hear a great deal about later on, sir, from my colleagues on the professional staff—how it works its strengths and limitations. As a result of the credit analysis by the Bank's staff, we decided that we would go no further than short term and only on the limited basis that I have talked about.

Our current Iraqi debt of \$50 million is a lot of money by most of our standards, and parenthetically I think we will be able to eventually recover it. But the Bank's credit evaluation and adherence to the principles of this reasonable assurance for repayment prevented truly significant losses, which in a way I am repeating what you said earlier, Mr. Gonzalez.

So that is the basic background I would like to lay before you, and perhaps you would like to hear Dr. Rodriguez and then question us. We will do it any way you would like.

[The prepared statement of Hon. John D. Macomber can be found in the appendix.]

The CHAIRMAN. Very well.

Thank you very much.

Ms. Rodriguez.

STATEMENT OF RITA M. RODRIGUEZ, MEMBER, BOARD OF DIRECTORS, EXPORT-IMPORT BANK

Ms. RODRIGUEZ. Chairman Gonzalez and members of the committee, I have been a member of the Board of Directors of Eximbank since 1982.

So I welcome the opportunity to appear before you, and discuss my role in formulating and approving Eximbank's policy in specific countries in general, and Iraq in particular, and the participation of specific financial institutions, such as BNL, in Eximbank's program.

As a member of the Board of Directors of Eximbank, I participate in the policy decisions as to the programs and the conditions under which Eximbank credit is to be made available in the country.

The guiding first principle in this decision is the congressional mandate to find reasonable assurances of repayment, and you will find that phrase in all our board memos. In this decision, the board established the maximum repayment terms that will be acceptable for that country, short-term, medium-term or long-term.

This decision, in turn, determines what programs will be used under a given country, the insurance program, for example, being the only program that is available at Eximbank for short-term financing.

In situations where there are questions about the creditworthiness of the country, like Iraq, the Board may decide to impose a limit on the exposure that it will be willing to accept in that country, in the aggregate or by transaction size.

Finally, since 1987, the Board also decides on the country risk fee schedule to be applied in the country. The Board meetings to decide on country policy are usually preceded by an in-depth, inter-

agency review of the country's capability to repay its debts in the future.

During this review, Eximbank's economist presents his or her analysis and the other agencies comment on it. The decision to offer the short-term insurance program in Iraq with a maximum outstanding balance of \$200 million was reached in July 1987 following this procedure.

Now, once the Board has established general guidelines for country policy, specific cases still come up to the Board in that country in three general cases. One is cases which fall within the parameters of the given country policy, but which involve credit amounts higher than the amounts delegated by the Board for decision by Eximbank staff or the loan committee.

The bank letter of credit insurance policy used by Banca Nazionale del Lavoro in Atlanta was approved by the Board, because its size exceeded the amount delegated by the Board for a decision by the staff on this type of policy.

The other type of specific cases that come to the Board for a decision are cases which fall still within the parameters of the given country policy, but which staff considers to be outside Eximbank's policy in other areas, for example, in the area of financing of defense goods.

In the case of Iraq, a few cases were denied at the Board level because of their relationship with Iraqi military.

Finally, the third type of cases that come for decision to the Board involve cases which are outside the parameters of the country policy, but which the applicant insists be brought for a decision by the board.

In Iraq, the typical request in this category involved the financing of exports associated with projects which require, and typically will be offered, longer terms than the 360 days allowed under Eximbank's policy for Iraq.

Now you have asked me to comment on my responsibility in general at the Eximbank, in addition to the duties as a member of the Board, among the other responsibilities assigned to me, all Eximbank's presidents under whom I have served since 1982, have asked me to work closely with the country analysis staff. This work has involved primarily the establishment of methodologies and procedures which would preserve and enhance the independence and objectivity of the economists responsible for generating country risk analyses, and which would facilitate the comparison of country's risks and associated policies.

In 1986, these efforts led to the establishment of a separate Country Risk Analysis Division at Eximbank, to which all the country economists formerly under the regional division were assigned.

In 1987, an informal group with whom I had worked in developing an exposure management concept for Eximbank was formally constituted by Chairman Bohn, as the Exposure Management Committee, which I have chaired almost since its inception.

The Exposure Management Committee is responsible for reviewing country policy and portfolio policy for the Bank as a whole, and to make recommendations to the Board as to country and portfolio policies on a semi-annual basis, or more frequently, if needed.

However, the Exposure Management Committee does not review the risk analysis performed for a specific country before it is presented to the Board.

You are interested in the influence that the country risk analysis performed by the staff had in my decision on policy for Iraq.

Clearly, the assumptions and the analysis made by Eximbank's economists were decisive in determining the narrowness of our policy in Iraq.

In spite of the enormous demand for export financing, which U.S. exporters alleged to exist in Iraq, and in spite of the presence of heavy competition from other export credit agencies, which we are generally mandated by Congress to meet, and which offered not only their short-term program, but also their medium-term and long-term programs to finance their exports, extending goods to Iraq, Eximbank's economist analysis prevailed.

That analysis indicated lack of reasonable assurance of repayment in credit transactions with Iraq on terms other than short-term, and it shaped the Board's decision to offer only a very limited program in Iraq.

You are also interested in the influence that other agencies in the United States may have had in our decision.

Because of the recurrent petitions from exporters, which all the members of the Board were hearing since the United States reestablished diplomatic relationships with Iraq, inquiries into the staff's analysis of Iraq's creditworthiness were common, when confronted with a policy that would not support the kind of financing they were looking for. Similarly, a staff from other agencies often provided evidence which in their opinion supported a more optimistic outlook of Iraq's creditworthiness than the analysis of Eximbank's economists suggested.

Finally, the influence of the BNL-Atlanta matter on Eximbank's policy: As I said earlier, the policy used by BNL to cover repayment risk in Iraq was approved by the Board. Eximbank's Board was not asked to approve any transactions with BNL-Atlanta since the scandal of that institution began to be known.

The last renewal of the BNL-Atlanta was approved by the Board in October 1988. When the BNL-Atlanta case began to be discussed in the papers, I asked in our senior staff meeting whether anybody was looking into our relationship with BNL after the fact. In successive meetings, I was informed that the review did not show any evidence of impropriety in our relationship and that the last transaction with that institution had taken place some months earlier.

Mr. Chairman, this concludes my testimony. I will be glad to answer any questions that you or the other members may have.

[The prepared statement of Ms. Rodriguez can be found in the appendix.]

The CHAIRMAN. Thank you very much, Ms. Rodriguez.

Chairman Macomber, I believe that most of the discussions and all were really to staff level, so that the appropriate staff level from, say, State, usually that would be what, a desk officer relating to that particular area or country?

Now, we do have this documentation showing a considerable—what can easily be defined as pressure from these levels, from the State Department, the Commerce Department. But to your mind or

memory, do you have any recollection of any sub-secretarial or secretarial-level intervention?

Mr. MACOMBER. Mr. Chairman, the answer to your question is absolutely not.

I have not been, nor do I know of any other Board member, been that has subjected to the word "pressure," if you will, to bend policies that have been long in adherence at the Bank and, in fact, are a matter of law. There has been no pressure of that type.

The CHAIRMAN. What about what today would be called "private sector," but private area that has connotations with quasi-official, individuals and associates that at some time or another some governmental responsibility?

I believe that, perhaps, the greatest intervention or efforts would have been made from the private, the commercial sector corporations.

Because our documentation, and again I remind my colleagues that I have submitted that documentation for the record, shows corporations from Bechtel to General Motors seeking considerable Export-Import Bank intervention or help.

Isn't it rather difficult to resist more from that level than from, say, the governmental the pressure or the insistence that the Eximbank approve a guarantee of some kind?

Mr. MACOMBER. Mr. Chairman, that is at the heart of the whole issue, and I think it is right on, if I may say so.

As you mentioned in your earlier statements, there was, at that time in the mid-1980's, into 1988, 1989, tremendous business interest in Iraq, for a whole variety of reasons. Therefore, it was absolutely normal for people in the Bank to be discussing with those companies or institutions whether or nor there was a chance of doing business; absolutely no question about that.

There is a thing in the U.S. Government called "checks and balances," and there is something in the Eximbank called "checks and balances," and it is called, "the reasonable assurance for payment."

I can have that wonderful ability to sit politely and listen to somebody in business say, or from another agency say, you know, it is this interest, or that interest, and wouldn't you consider, and all I have to say is we have a professional staff that does the economic and credit evaluation, and if that credit evaluation does not come up to the point that we can make a favorable credit decision, there is no way we can do it.

Now, I should emphasize that the Board makes the decisions, not the professional staff, which, again, is the way it is set up in the legislation.

But, obviously, we listen hard to what the professional staff has to say. That is the great protection of the Bank.

The CHAIRMAN. In the case of Iraq, you did meet the Iraqi Ambassador and other Iraqi officials to discuss the Eximbank's refusal to loan money to Iraq. I believe the Iraqi Government protested very fiercely, and was trying to make a case that the United States was hostile to the regime as a result of the refusal for the loan money.

Were these meetings often and insistent, and to what degree did they have the joinder of American interests, private interests?

Mr. MACOMBER. They were not particularly frequent, but they were there. They did occur.

In fact, I attended one of the meetings when I joined the Bank's Board a couple of years ago. But I don't consider that to be anything other than normal courtesy, if I may say so, the willingness to meet with ambassadors who think that we should have a different attitude about their country, or who would like to present their case as to why we should have a different attitude about the credit-worthiness of their country. That is a normal, ongoing situation, and in addition to courtesy, we often learn a lot from these visits.

Having said that, we keep retreating to the basic fundamentals.

The CHAIRMAN. Dr. Rodriguez, could you describe how the Eximbank's counterparts in foreign countries were handling the Iraq matters, and what kind of payment record Iraq had with those countries, if you have any knowledge?

Ms. RODRIGUEZ. Other major countries competing with the United States were by and large open in Iraq, under all their programs, as I have said. Their repayment experience was one that by certainly 1989, when the subject was discussed at the Berne Union meetings, the practice of Iraq requesting bilateral rescheduling was common, that was well known.

The CHAIRMAN. OK.

Mr. WYLIE. Mr. Chairman, Director Rodriguez, you are a member of the board of directors and there are different members, I guess, on the board; five?

Ms. RODRIGUEZ. Yes.

Mr. WYLIE. And there are two that are not voting members, is that right, ex officio, that is the Secretary of the Commerce and the U.S. Trade Representative.

OK.

Do the five members all vote on whether to extend credit to a particular country, or is that a decision that you are able to make on your own initiative?

Ms. RODRIGUEZ. In most cases, it is a consensual decision. In cases where the members do feel very strongly, and there is a divided opinion, there will be a vote taken.

Mr. WYLIE. Otherwise, you are able to do it as an individual, and that is what happened in the case of Iraq.

Ms. RODRIGUEZ. I cannot remember whether a vote was taken.

Mr. WYLIE. I am not questioning the wisdom of your decision of that, I was just trying to educate myself as to how this comes about.

Now, does the Secretary of Commerce attend the meetings when votes are taken?

Ms. RODRIGUEZ. During my almost 9 years at the Bank, the Secretary of Commerce has not attended. The Assistant Secretary for International Trade often attends.

Mr. WYLIE. The Chairman asked about the intervention of the State Department and the Department of Commerce, and perhaps the U.S. Trade Representative, as far as decisions of the Eximbank are concerned. Do they come into play very much?

What foreign policy considerations come into play at Eximbank's program?

I guess that is the bottom-line question?

Mr. Macomber, you can answer that if you want.

Mr. MACOMBER. Well, clearly, we are governed by a series of Executive orders as well as the occasional legislative regulations from Congress.

We are off cover in several countries at the moment, either because of human rights issues, the Marxist-Leninist prohibition, and sometimes terrorists activities.

So there is a whole gambit of countries that can be documented by the State Department, or other parts of the executive branch and/or by Congress.

Mr. WYLIE. So on occasion, that does come into play, foreign policy considerations?

Mr. MACOMBER. In that case, absolutely no question.

Mr. WYLIE. But in this case that did not necessarily rear its ugly head.

Mr. MACOMBER. It had earlier, because of the terrorist situation, that is correct. It had, indeed, slowed the Bank down. And at one point if I recall, Congress had put it off balance because of the terrorist activity.

Mr. WYLIE. BNL participated in your bank letter of credit; is that correct?

Mr. MACOMBER. Yes, sir.

Mr. WYLIE. What type of information did you ask BNL to supply you with? You might be better equipped to answer that, Director Rodriguez?

Ms. RODRIGUEZ. The standard information requested from any financial institution that applies to participate in our programs, which is information associated with their financial conditions, their history in business, and then typically there will be 3 or 4 years of financial statements submitted, plus some history of what kinds of transactions they have done and where they have been engaged.

In the case of BNL, it clearly was a multinational bank.

Mr. WYLIE. Would regulators have any occasion to check records of BNL against the records which you elicited from them?

Ms. RODRIGUEZ. Certainly.

Mr. WYLIE. So the bank regulators might have been involved here; is that what you are saying?

Ms. RODRIGUEZ. No. They were not involved.

To the best of my knowledge, nobody raised any question. When that policy was approved there was absolutely no question about the creditworthiness of the parent company and the ability to perform of the Atlanta office in particular.

Mr. WYLIE. So you don't know if they did or did not ask for any help?

We now know that BNL greatly exceeded internal limits set by its parent company, partly through BNLs participation in the Commodity Credit Corporation, Eximbank. In approving the participation of a bank, and your Exim program, is information ever referred from a bank regarding its internal lending limit or exposure to a particular country?

Ms. RODRIGUEZ. We do not take that information. In fact, in most cases or very often, you will find a financial institution asking for the insurance program of Eximbank or CCC, I imagine, because

they are already at the country limit that their internal regulations have imposed.

Mr. WYLIE. OK.

To what extent, and do you think the Commodity Credit Corporation guaranteed credit to Iraq when Eximbank was not, or when Eximbank's exposure was so low, whereas the Commodity Credit Corporation's exposure was a little higher?

I am not sure that—why do you think that the Commodity Credit Corporation extended credit in areas where you weren't able to or didn't?

Ms. RODRIGUEZ. I, quite frankly, am not familiar with the mandate given to CCC, nor how they implement it. We have received information from them, which included what they were doing in Iraq. In addition, they participated in the country analysis discussion.

But their programs I do not understand, nor do——

Mr. WYLIE. It was a strange question, and I am not surprised by your answer.

Thank you very much.

The CHAIRMAN. Mr. Macomber, what is your position on the Bush administration's initiative to permit the Eximbank to provide financial guarantees for sales of military products to industrialized and Third World nations?

Mr. MACOMBER. Sir, I am very much in favor of that, and I don't know how much time you want to devote to that today, but let me give you a brief, if I may, rationale, as to why I think it is a good idea.

In your opening comments you made the comment that this would have been a big change from the Bank's past history over the past 15 to 17 years. It is a big change, but things have changed.

Most defense contractors in this country are seeing a much smaller domestic market.

I do not believe there are too many people who think it is not in our interest to maintain a strong defense manufacturing capacity, and, therefore, the overseas markets which heretofore have not been all that important to them suddenly loom very, very important. That is the first point.

The second point is that the administration, and I suspect people like yourself have been much more forthcoming about supporting the budget of the Export-Import Bank.

In other words, there is room to do this without robbing Peter to pay Paul, Peter being the traditional nondefense business.

Third, we are proposing a limited amount of money. It is a lot of money, but in terms of defense business, it is a billion dollars, and that is not going to change the character of the Bank. However, it could be of some help to the defense industry.

And as important as anything else is from the Chairman's point of view our charter reauthorization is coming up, as Ms. Oaka realizes in another year, and we are proposing this as a pilot program, and unlike many other pilot programs in the U.S. Government, this really would be one.

Because by definition, you have to look at this next year and say yes or no about it. I understand the emotional issue surrounding the financing of defense articles and services, but I think we have

put firewalls around this program so I can say to you in a straightforward, practical way that we will be of some help in the trade promotion are for our defense industry.

I can talk on forever on this, Mr. Chairman, but I think that summarizes it.

Mr. ANNUNZIO. Mr. Macomber, I have been a long time member of this committee, over 20 years. You have the record. I have always supported the Bank. But this particular policy is very disturbing to me.

What happens when we loan money to one of these countries and we go to war? They have the weaponry. They have the equipment. They are killing American boys.

Mr. MACOMBER. Yes.

Mr. ANNUNZIO. Doing it with our own money. That is what disturbs me.

Mr. MACOMBER. Yes. It would be absolutely irresponsible for the Bank to embark on a program where the likelihood of that happening is very, very high. We are proposing this for our NATO allies as well as Japan, Australia, and Israel.

Mr. ANNUNZIO. I appreciate your answer, but you know it has already happened.

Mr. MACOMBER. I don't see where it happened under those circumstances.

Mr. ANNUNZIO. In Iraq.

Mr. MACOMBER. Iraq would not pass the credit analysis. There is no way we could do it. First of all, it has to be a creditworthy transaction. Iraq was not then, and is not now a creditworthy country.

There is no way it could be done. That is why we have this limitation to countries which in your and my vernacular would be AAA countries.

Mr. ANNUNZIO. It is my understanding that Iraq got approval, when they got this money, to buy arms and we went to war with Iraq and these weapons were used, you know, there were American boys out there.

It just appears to me like we are financing our own destruction, Mr. Macomber.

I yield to the Chairman of the committee.

The CHAIRMAN. I was going to ask the gentleman to yield to me.

Although we are interested, this isn't the principal focus for this hearing. It is a matter that is concerning more and more of our members. We have a couple of Members, in fact, who have drafted a bill that would provide legislation to prohibit this as a new policy for the Eximbank.

Let me say this, that I agree it is not a matter pertinent to this hearing, but I can understand why it would be brought up.

The reason is, and I think Mr. Annunzio is absolutely correct. I must agree with him. Given the contradictory—I hate to use that word, but you can say its schizophrenic policy or lack of policy is that our country has developed, it is conceivable that if the Eximbank is allowed to get away from its traditional loan practices and go into military merely because the domestic military industry is supposed to be having a hard time because of cut-backs, but actually compounding the world's problem.

What we will say is we are learning nothing; we have learned nothing if we then continue with a vengeance the very thing that is leading the whole world now to God only knows what disastrous conclusion.

So I think that it is something that we cannot keep from having it injected here in the course of these hearings.

Let me add my voice to Mr. Annunzio's because I am in complete agreement with him. Nobody would have foreseen in 1983 when the President removed Iraq from the list of terrorists countries, even though Iraq and Israel have been in a state of war for years, and in full knowledge of that the United States with its traditional policy with respect to Israel nevertheless fomented, stimulated what we are discovering is this intricate, inner-connecting maze. That is why I was asking the questions awhile ago. You have everybody from Kissinger and associates to a present highly placed official, a Deputy Secretary of State, Egleburger, intervening in a contradictory way.

It was Henry Kissinger's voice last autumn that was saying last autumn, Mr. President, you can't wait; you have to go in and have a quick kill in Iraq.

Yet it was his business associates and his representations through one of his staff in Iraq that was contributing to the enormous scorn of the taxpayer to loans some of which—no question about it—provided monies for the military and equipment and food stuffs that kept Iraq's army going.

I wanted to join my colleague.

Mr. ANNUNZIO. I thank the Chairman.

I want the Chairman to realize he was speaking on my time. My time has expired. I have some more questions that will have to wait.

The CHAIRMAN. I ask unanimous consent the gentleman be given an additional 2 minutes.

Mr. ANNUNZIO. Thank you very much.

While I—

Mr. MACOMBER. I would just add—

Mr. WYLIE. Reserving the right to object, I just wanted to ask Mr. Macomber about, before you get to that, isn't the suggestion that credit be extended to just NATO and Japan in this case for military equipment?

Mr. MACOMBER. That is correct, plus Australia and Israel, those countries.

Mr. WYLIE. You did not have authority to extend the credit directly to Iraq.

Mr. MACOMBER. In actual fact, we have authority to extend credit to many of those countries the way the legislation is written today.

Mr. Annunzio put his finger on it earlier when he said there is a practice that has existed for 15-17 years whereby the Bank has not provided the financing for defense articles and services, and therefore as a matter of good faith—the Chairman and I talked about this earlier—we thought it appropriate to have the issue raised and have it debated.

Ms. OAKAR. Will the gentleman yield?

Mr. WYLIE. I withdraw my reservation. I just wanted to make that point.

Ms. OAKAR. Reserving the right to object, will you yield?

Mr. ANNUNZIO. Sure.

The CHAIRMAN. You still don't have your 2 minutes.

Ms. OAKAR. May I ask my Chairman to yield? You will yield, Mr. Chairman, Chairman Annunzio?

Mr. ANNUNZIO. Absolutely.

Ms. OAKAR. Let me just assure my colleagues that the subject of the administration's proposal and the Eximbank proposal which was the subject of a subcommittee hearing last week will be fully explored and I appreciate that it is attempting to bring it up at this particular hearing, but I wanted to assure my members that we are going to take it up, and there was significant interest in this particular aspect of the proposal, and we will be marking up that bill in the near future.

The CHAIRMAN. Mr. Annunzio, you are recognized for 2 minutes.

Mr. ANNUNZIO. Mr. Macomber, what is the total dollar amount of Exim loans to Iraq, which are in default today and who will pay for the resulting losses?

Mr. MACOMBER. At the moment the number is roughly \$50.8 million.

Mr. ANNUNZIO. Fifty point eight million—

Mr. MACOMBER. Million.

Mr. ANNUNZIO. Billion?

Mr. MACOMBER. Million.

Mr. ANNUNZIO. Million.

Mr. MACOMBER. Million. We are a little smaller than that. It is our hope and certainly our intention and you will hear more about this later from our claims and collection group, that we will, in fact, recover that money over time.

Mr. ANNUNZIO. You will.

Mr. Macomber, Iraq has had a history of not meeting its loan payments. Yet in July 1987, Exim reopened its lending relationship with Iraq even though its internal analysis supposedly could not support these extensions of credit.

Did Eximbank receive any pressure from the U.S. Government to lend to Iraq? When I say "the government," I mean the Secretary of State or the President?

Mr. MACOMBER. Absolutely not. And we opened in those days only after the Iraqis had cleared up arrears, and as all of us have said earlier and you will hear more later on, there was no further extension of the credit.

Mr. ANNUNZIO. Thank you.

My time has expired.

Mr. MACOMBER. Sorry, maybe I have taken too much.

The CHAIRMAN. Ms. Oakar.

Ms. OAKAR. Thank you, Mr. Chairman.

Chairman Macomber, on page 8 you indicated at the bottom of the page that the Bank's economic analysis rates have very serious questions about Iraq's financial capabilities and noted that Iraq was increasingly financing a military machine and then, of course, you mentioned that it was lightened by the possibility of conflict and so on.

You were more of a prophet apparently than some others in the government. But in any event, based on that, I still really—then you go on to say that the National Advisory Council structure, and that includes the Secretary of Commerce, the U.S. Trade Representative, Secretary of State, yourself, Chairman of the Federal Reserve and the International, director of the International Development Corporation Agency, and so forth, and chaired by Mr. Brady, Treasury Secretary, that basically that structure doesn't really do anything with respect to the structure itself—I am trying to find the exact language here—where you say that with respect to economic programs that come before that entity you indicate that it is very seldom that you object to another department's kind of credit like CCCs.

So, while Eximbank had serious reservations about furthering long-term extensions of credit and even in your engineering department where they raised a question, you said that it was not likely that chemical weapons were being produced but at least they raised the question, still you felt that you could not cast a vote against the CCC credit even though you indicated in your testimony that there was surfacing this BNL scandal.

What is the purpose of having this National Advisory Council Board if the members on the board don't object to loans and extensions of credit that come under other agencies that are not board-member agencies?

Mr. MACOMBER. As you know, we are clearly not the lead agency in the National Advisory Council process, and therefore our role in the National Advisory Council process in matters that are not related to the Eximbank is simply to provide information.

Ms. OAKAR. But you provided the information about Iraq; didn't you? I mean, your department—as I mentioned earlier, you should get high marks for giving the danger signals relative to Iraq and the analysis was very negative. That was by your own admission and the director's admission and apparently your staff was on to something.

But I don't understand why, based on that, why you didn't cast a negative vote for the CCC, could modify program that they wanted which we have reason to believe did not necessarily involve agriculture entities but involved weaponry.

Mr. MACOMBER. Yes, I think the best reply I can give is that many issues are brought to bear in the NAC process. After a balanced presentation of the facts, other information and judgments on the types of transactions of a certain size or certain character from members of the National Advisory Council a decision is made: For example, the State Department would have certain issues relating to human rights and other matters; the intelligence agencies would have certain inputs; any negative inputs provided by Eximbank or any NAC member, may be offset by more positive inputs from other agencies.

Now, in actual practice there is a great deal of informal discussion I suspect on many of these controversial issues so from the Bank's point of view we have it pretty well talked out by the time they get there. But there are controversial issues here.

As far as the relationship with other agencies are concerned, the Bank's role is really a purveyor of information in the National Advisory Council.

Ms. OAKAR. Then you did give the information, your staff's negative report which you really emphasized in your statement, concerning Iraq and its credibility, creditability, and yet how did they react? How did National Advisory Council members react when you put forward your analysis?

Mr. MACOMBER. I can't answer going back to past years, but they put it into their own decisionmaking process. That was their reaction.

Ms. OAKAR. Why can't you answer how they reacted?

Mr. MACOMBER. I wasn't around.

Ms. OAKAR. Let me ask, Director Rodriguez, you were around?

Mr. RODRIGUEZ. I was around but not in a NAC meeting.

Ms. OAKAR. I don't believe neither one of you know what the reaction was of the NAC members. That is really hard for me to believe. I am not trying to attack the credibility of the Eximbank, because I am a fan of the Bank. I think we need it for the sake of our export opportunities. I want to make that very clear.

But who was around?

Mr. Chairman, can I ask who was around and who would know what the reaction of the NAC was?

Mr. MACOMBER. Can I take a whack at the answer?

Ms. OAKAR. Sure.

Mr. MACOMBER. The kinds of information you all have gotten which is prepared by our internal staff is obviously made available to other agencies. It is obviously a part of their decisionmaking process.

To the extent that they find it relevant to their particular decisionmaking process is something you have to ask them about.

Ms. OAKAR. Well, but you were there for some of the discussion; weren't you?

Mr. MACOMBER. No, the NAC is carried out at a lower level within the Bank.

Ms. OAKAR. Then do I ask your staff? Do they know more than you do—

Mr. MACOMBER. They might know more about the particular instances, yes.

Ms. OAKAR. Mr. Chairman, because I think this is a pertinent question—but the buck has to stop with the Chairman of the board. I would assume that you would know.

My concern is that apparently the Eximbank had a very relevant analysis that gave all kinds of danger signals about this situation with respect to Iraq and had probably done the most comprehensive analysis and yet apparently it was virtually ignored by this very sophisticated board.

Mr. Chairman, I think the whole point is, why? Why is it that public policy did not go forward, based on some very intense research and if that research weren't enough, then what research did the Secretary of Commerce, the Secretary of State, U.S. Trade Representative, and others, provide that counteracted the Eximbank research?

The CHAIRMAN. Will the gentlelady yield to me?

Ms. OAKAR. Delighted.

The CHAIRMAN. Of course, Chairman Macomber is the best qualified witness. He may not know some of the details like we may not know some of the intricacies that the staff works up on some banking legislation, but I think in answer to what you are leading to, I think Mr. Macomber answered that in a way when he said that once the Central Bank—I imagine of Iraq—cleared its account and became creditworthy, a decision was made to extend whatever credit was extended. But it will be refused up to that point, because of its lack of creditworthiness and whatever the track record showed was a poor payer.

Now, I think the central question here is, why, if the staff of the Eximbank, and even the board members knew and had a hard opinion on it, would there have been in the light of recommendations from other levels of the government, a change?

I believe that those departments, Ms. Oakar, just absolutely had a different policy at the time and that policy was to do business with Iraq.

Mr. WYLIE. Will the gentlelady yield? I think you are on to something I was trying to get into a little earlier.

Ms. OAKAR. Sure.

Mr. WYLIE. And it had to do with the membership on the directors and the ex officio capacity of the Secretary of Commerce and the Trade Representative.

I have a chart that says National Advisory Council, and it mentions all the people that you mentioned. Over here in its functions, though, it mentions that it is supposed to be advisory inter alia to the World Bank, Inter-American Development Bank, Asian Development Bank and African Development Bank Fund. It doesn't say anything about the Eximbank.

Is this same group advisory to the Eximbank?

Mr. MACOMBER. It is—the National Advisory Council that we are talking about has the representatives that Ms. Oakar has listed. They are a board or a group, if you will, that reviews the decisions of the Bank that go beyond the immediate authority of the Bank.

Ms. OAKAR. But if I can reclaim my time, what I am trying to get at is, frankly, not my concern about the international Banks, but my concern about the Commodity Credit Corporation.

To be honest with you, it—that is not necessarily your fault—but judged by your description of how votes are taken with respect to NAC, by a poll, telephone poll and so on, it is somewhat of a frivolous type of sensitivity to situations that might be very meaningful.

I would think, for example, that if the Eximbank came forward with a very comprehensive analysis relative to the credibility of Iraq and some real question marks that this NAC board would meet and not take a telephone poll relative to CCCs desire to give them extensive credit that will cost the taxpayers a lot of money.

I would just think that procedurally, we might want to look into this, Mr. Chairman, and ask if this Council operates so frivolously in terms of the manner in which it conducts its business.

I would have thought that based on your analysis the Council would have raised some real serious questions about extending credit to Iraq with respect to CCC. In other words, you wouldn't do

it but they found, they went fishing and found another agency that would.

Mr. MACOMBER. The functions of our agencies, as you know, are very different from one to the other—and we are in the commercial part of it. We have a certain approach to it based on credit analysis. Obviously, credit analyses are relevant because money is fungible and in that sense I think you are 100 percent correct.

Ms. OAKAR. On insurance and loans, there is a leveling ground with respect to that aspect.

Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. The Chair will ask my colleague to yield for a moment.

We are very honored to have present with us there on the front row behind the witnesses some very distinguished visitors from the Italian Senate, the Senate of the great nation of Italy. We have Senator Carmine Gallafallo, Senator Marino Ortissa and the little lady I believe is a member of the staff and we didn't get her name, but why don't you get up and introduce yourself. I am sure you are bilingual.

The CHAIRMAN. And we have the Deputy Chairman of the committee. Let me say by way of parenthesis, that I have had the great, great honor of meeting the chairman, Senator Garda, about a moment and a half ago, a very distinguished gentleman.

You know, they have been in the matter of investigatory work for sometime in Rome. The Deputy Chairman, Mr. Guido Guersoa, and the Second Deputy Chairman, Mr. Massimo Riva.

Good to see you again.

And I think I should introduce the gentleman that accompanies the group who is so fluent in both of our languages that he is not only a representative, but a translator-interpreter, Mr. Enrico Zarnelli.

He and I are what we call in Spanish, *tocallos*, meaning the same first name. But my real name is not Henry. It is Enrique. In Italian it is Enrico.

Thank you for taking the time to be with us. We feel honored to have you among us.

Mr. Flake, I believe you were in the point of arrival.

Mr. FLAKE. Thank you, Mr. Chairman. I have no questions.

The CHAIRMAN. Thank you.

Mr. Vento.

Mr. VENTO. Mr. Chairman, I haven't been here for the entire hearing and I apologize. I had schedule conflicts.

I think it is important to continue this matter by calling in administration witnesses. The concern I have is, first of all, with the independence of the Export-Import Bank because it appears to me that over the course of consideration that there has been a real question as to the other agencies' involvement.

Mr. Macomber, can you give me any assurance about the independence of the Eximbank decisions? Obviously, you decided at some point not to proceed with loans and guarantees of a short-term nature. Shouldn't we be concerned about that if we have other agencies of the national government, the State Department and others, having to have you take positions contrary to the positions or judgments made by the board itself and of the staff?

Mr. MACOMBER. Sir, I think that the Bank's Board over a period of time and the staff, while hardly perfect, has a record of looking at credit decisions from a very strong, straightforward credit analysis point of view, and unless it can meet the old-fashioned test of reasonable assurance of repayment there is no way that we can make the deal. That is part of the law. It is also part of the methodology of the place as well.

With regard to credit, of course, there are all kinds of lengths and durations. We opened up back in 1986, after having been closed, only after the Iraqis had brought themselves up-to-date on all of their arrears. There were none when we reopened.

Mr. VENTO. Was this with respect to the Eximbank credits they had or was it with respect to the range of credits which they had been extended on a broader basis with the United States or other international financial institutions? Were they up on their arrears on all of that?

Mr. MACOMBER. You have asked a very large question. The answer was as far as we were concerned was they had brought themselves up-to-date, absolutely no question whatever.

I believe, and you will check into this later on, they were up-to-date in the CCC, which will respond to some other questions.

At that time, they were beginning to play one export credit agency off against another. That was the reason why we, in fact, limited ourselves to very, very limited credit.

In the world of international banking, as you probably know, better than I, short-term credit does not amount to very much. The thing that everybody wants is the medium- and long-term credit. That, we would not do.

Mr. VENTO. One further question along these lines, in many of the loans that were put forward, they are blended credit; are they not? Eximbank puts them forward? You take a position but there is a private sector position in some of the credit; is that not correct?

Mr. MACOMBER. We would be financing the sale of goods or manufactured goods from the United States. We are not taking any position in the company or any position—

Mr. VENTO. No, I am not talking about that. In terms of credit, you have part of the credit; you take the first position in terms of exposure.

Was there any shortage in terms of other credit types extended to Iraq from the private sector within this participation? What was the input that you were getting for participation from the private sector in terms of credit for the Iraq transactions that you participated in? What was the message you were getting in? Can you generalize?

Mr. MACOMBER. Certainly, there was no great rush on the part of American, Japanese, or European banks to go in and do business in Iraq without any kind of a guarantee from and export credit agency.

Mr. VENTO. So without your participation, they were not willing to do it independently at that time at that point?

Mr. MACOMBER. Very unlikely, yes, sir.

Mr. VENTO. This is hard credit. This is not a soft window credit; is that correct?

Mr. MACOMBER. That is correct.

Mr. VENTO. So we are talking about market rates of credit, all about it, somewhat limited I guess by this particular agency.

Mr. Chairman, that is satisfactory for now.

Thank you.

The CHAIRMAN. Thank you very much.

I believe Mr. Wylie and perhaps Ms. Oakar may want to have a follow-up.

Mr. Wylie indicates he does, so I will recognize him.

Mr. WYLIE. Thank you, Mr. Chairman.

Just so I will understand the line of questions Ms. Oakar went into earlier, the NAC Council in its current form is the advisory body authorized to review proposed transactions, programs, and policy to extend U.S. programs and for coordinating policy. This was a statutory group until 1965 when the Congress decided it shouldn't be any more.

Then, it was reinstituted by Executive order according to the memorandum I have here.

Now, is it your position that NAC has veto authority over a credit extension of the Eximbank?

Mr. MACOMBER. No, it does not.

Mr. WYLIE. That is what I thought.

Now, their suggestion is advisory only. But in the case of Iraq, the NAC Council, as I understand it, suggested that at one stage of the proceedings that Iraq was not creditworthy and took your advice that a loan should not be made to that country.

Mr. MACOMBER. That is correct.

Mr. WYLIE. While almost in the same—at the same time period the Commodity Credit Corporation said that Iraq was creditworthy and NAC said it is OK, go head and extend them credit.

Is that a fair way to analyze what happened in that period?

Mr. MACOMBER. I am not familiar with the sequence of payments and repayments and disbursements of the CCC. I cannot speculate on that.

Mr. WYLIE. Let's assume hypothetically that that is accurate. Would that be an inconsistency in your view?

Mr. MACOMBER. It would not necessarily because it would depend on the criteria used which the CCC made their credits.

Mr. WYLIE. I thought that point had to be made and cleared up. In its present form, the NAC Council could not veto a credit extension of the Eximbank so that decision is basically yours and yours alone.

Mr. MACOMBER. In practice, the NAC is primarily an administrative vote to ensure coordination among the different agencies of the government. For example, if there is a human rights issue or intelligence issue associated with a transaction, the NAC, ensures that the other issue is brought into the decision-making process.

Mr. WYLIE. You would pay attention to what NAC had to say, but on the other hand you might suggest that they be wrong in this instance?

Mr. MACOMBER. Clearly.

Mr. WYLIE. OK.

Thank you very much.

Ms. OAKAR. Will the gentleman yield?

The CHAIRMAN. Ms. Oakar.

Ms. OAKAR. If I could, you referred to me. My point was really not about the Eximbank's extending the credit indirectly to Iraq. My point was about the CCC which extended \$5 billion or more in credit. They extended millions. CCC extended billions.

Mr. WYLIE. I understand that, but—

Ms. OAKAR. The point I was trying to make was not veto power and so on. The point I was trying to make, I say to my good friend from Ohio, was that this board did have oversight over CCC, and because Eximbank had done such a sophisticated analysis which was negative, that should have been on the table when they made the rounds and did their telephone poll and so on.

That is my point. I just want to be sure everybody gets the point I was making.

I wasn't criticizing Eximbank's loan to Iraq, which was short-term, and so forth. I was criticizing CCC's loan and asking why this red flag was not put up with the NAC board which to me I think acts rather frivolously if the only thing they do is take a little poll and say are you for it or against it.

I think there was some meat and potatoes there that were ignored.

Mr. WYLIE. I think that is the point I was attempting to make. There may have been different considerations. In the case of CCC, maybe they were extending credit to provide meat and potatoes, and in this case Eximbank was going for a different purpose.

Ms. OAKAR. In this case, it was chemical weapons.

Mr. WYLIE. For what? From what? From Eximbank?

Ms. OAKAR. From CCC.

Mr. WYLIE. Chemical weapons.

Ms. OAKAR. In some cases I believe, yes.

Mr. WYLIE. We will have to check that out.

The CHAIRMAN. Well, I think here the main fundamental purpose for this morning, I explained, and I think Ms. Oakar, you have touched on an all-important question. We will defer to your subcommittee, because you are going to continue your hearings and oversight with respect to Eximbank and we will go to that level. But from the overall level, the issue you have raised, I think, is a pertinent one, and that is the government is getting into trouble for the same reason that some of our biggest banks.

I think of the 1984 Chicago Bank, the Continental Illinois, you know, nobody really asked how could a bank just rated number one have gone under so soon.

Well, one thing, it became pretty big and extended to where the second floor of the bank didn't know what the third floor was doing and the fifth didn't know what the second or the third were doing and they were even violating such fundamental laws, traditional banking laws such as exposure of 10 percent to any one single borrower. The bank didn't know it.

It is the same here except in a little more complicated form. That is what we are about. We are particularly anxious to make sure that the financial institutions, the banking regulatory system of our country is shaping up as soon as it is possible for us to provide what I think is essential and necessary legislation.

So we want to thank you very much, Chairman Macomber—

Mr. VENTO. Mr. Chairman, I have another question.

The CHAIRMAN. The Chair will yield to Mr. Vento.

Mr. VENTO. What is the record in terms of the—the limit over the short-term was \$200 million. Do you have a record as to the actual number of dollars of credit provided? It was a 360-day period, but what was the amount of credit actually extended between 1987 and 1990 on August 2? Do you know?

Mr. MACOMBER. Roughly \$260 million.

Mr. VENTO. In toto. In other words, they kept most of it outstanding that time, and that was the maximum?

Mr. MACOMBER. No, that was the maximum amount we lent.

Mr. VENTO. Was it \$200 million?

Mr. MACOMBER. Two hundred sixty million. We never went above \$200 million at any time and rarely came close to the \$200 million.

Mr. VENTO. I understand.

What was the impact on the private market in terms of the Eximbank's presence for the short-term 360-day credit? It was positive; wasn't it? That was a positive signal to the private sector to participate?

Mr. MACOMBER. It was positive if you want to open up the door a crack.

Mr. VENTO. Well, that is exactly right. You did your risk analysis and you talked about creditworthiness. There are other factors involved, though; are there not?

Mr. MACOMBER. In the analysis of creditworthiness, yes.

Mr. VENTO. A risk analysis.

Mr. MACOMBER. Yes, a whole variety.

Mr. VENTO. In terms of the use of the credit that was use of the credit for various products and the determination as to the validity of such use.

How were you involved in that? How would you characterize Eximbank's involvement in that, Mr. Macomber?

Mr. MACOMBER. We would review the specific products that were involved.

Mr. VENTO. Did you find any problems with any of the products involved during that period?

Mr. MACOMBER. Occasionally, yes, but the engineering people will be getting into that in their testimony, but it was very rare that we would find that.

Mr. VENTO. That was not a reason for not extending credit or changing from short-term to mid-term or terminating it; is that correct?

Mr. MACOMBER. No, because people know we simply won't finance certain types of products.

Mr. VENTO. I know, but I was trying to understand whether or not, in fact, there was a repeated effort for marginal types of products being financed that were questionable? You don't believe so; is that correct?

Mr. MACOMBER. I do not believe so.

Mr. VENTO. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Kennedy, did you have any questions of these witnesses? We have 5 minutes following, but if you do, we will recognize you.

Mr. KENNEDY. Thank you, Mr. Chairman.

I had to be called out to testify before the Appropriations Committee briefly. I do have a question.

I mentioned in my opening statement, Mr. Chairman, I understand in reviewing the earlier documents in the subcommittee that the Eximbank is insured by \$267 million in exports to Iraq under 182 different transactions.

Are you familiar with those statistics? Can you tell us what percent of those transactions were reviewed for military applications by the engineering department?

Mr. MACOMBER. By definition anything with a military application goes there.

Mr. KENNEDY. When were—were any of those red flagged for having—are they reviewed for potential designations where these would not be available for export under U.S. law?

Mr. MACOMBER. No, there clearly is a list, sir, of products that come under the category of military and if anything is on that list or comes close to that list that rings a bell.

Mr. KENNEDY. I see.

Mr. MACOMBER. I know, Mr. Chairman, the engineers will go into that later on in the testimony.

Mr. KENNEDY. Can you tell us how many were actually reviewed?

Mr. MACOMBER. All of the cases are looked at from that point of view—if there is any product that comes close to or is on the list—the Bank simply cannot support it.

Mr. KENNEDY. My understanding was something different than that.

Can you explain to us what checks are in place to ensure the Eximbank does not guarantee military sales under its program?

Mr. MACOMBER. There is a list of military products and if these products show up on that list, we simply cannot do it.

Mr. KENNEDY. And you are confident that your agency is looking into those on a regular basis?

Mr. MACOMBER. As Mr. Annunzio was saying earlier, the mix of military sales in the Eximbank has always been an important issue.

I can assure you that, we have been looking at that very, very carefully.

Mr. KENNEDY. OK.

Let me try to follow up as the next panel comes forward because I have a different understanding of the extent to which your agency has been looking at these.

This is testimony that came out the last time that you were before the committee. I am not sure it was you, but last time this issue was before this committee it came out that there wasn't, in fact, the kind of review that you are talking about. In fact, in most cases nothing was done.

To be honest with you, my understanding is out of 182 different transactions, there was just a handful that was actually reviewed. I would be very interested if you could go back and really double check to make sure that all 182 were actually reviewed.

Because that is not my understanding. My understanding is, as I say, somewhere in the neighborhood of a dozen out of 182 were actually reviewed.

So could you let me know in writing?

Mr. MACOMBER. If we see something on here that says pipes and wrenches, clearly traditional products, we may not go through the investigatory review. If we see military ambulances, we sure will have it reviewed.

Mr. KENNEDY. Well, as I say, let's see to what extent once that should have been reviewed, were not.

[The information referred to can be found in the appendix.]

Mr. KENNEDY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. Chairman, and Mrs. Rodriguez, thank you, again, for your cooperation. We deeply appreciate it.

Mr. MACOMBER. Thank you, sir.

The next witnesses are Daniel L. Bond, Vice President for Country Risk Analysis; Robert L. Charamella, Vice President, Insurance; Arthur Pilzer, Vice President, Africa and Middle East; John W. Wisniewski, Vice President, Engineering; and Stephen D. Proctor, Vice President, Claims and Recoveries.

Unless there is reason not to or there is objection, it is my intention to recognize you in the order in which you were introduced.

We want to thank you for your testimony that you submitted, and because of the time we took with the initial witnesses may I suggest that we have your written testimony as you presented to us in the record, and then I would suggest if you would summarize the high points of your testimony and thereby giving each member of the panel to be heard. Then, we will ask questions.

We will recognize Mr. Bond first.

STATEMENT OF DANIEL L. BOND, VICE PRESIDENT, COUNTRY RISK ANALYSIS

Mr. BOND. Thank you, Mr. Chairman.

I am Daniel Bond. My current position is Vice President and Chief Economist. I am in charge of the Country Risk Analysis Division of the Eximbank.

I came to the Bank in early 1988 and was Deputy Vice President of the division at that time. I became Vice President in early 1989, so I was involved in a good deal of the country risk discussions of Iraq in 1988, 1989, and 1990.

As you suggested, I will briefly summarize my written responses to the questions asked by the committee. First, using Iraq as an example, I will explain the country risk analysis process.

Dr. Rodriguez has gone over some of the major aspects of the country risk analysis process, but let me remind you that it starts in our division with a country risk analyst assigned to the country. Our analysts normally are assigned about a dozen important countries each. This analyst is responsible for looking at all types of information that might affect the repayment prospects for a country. We look at the past and we try to look into the future, that is, we do not limit our analysis simply to what is the condition today or yesterday. We provide the other staff members and the Board with an analysis of what each country's prospects, even to the extent of trying to provide quantitative projections of a country's repayment capabilities.

This process really looks at two things, the country's ability to pay and the country's willingness to pay. Our analysts had serious reservations about Iraq on both of these grounds.

Iraq's debt servicing obligations to its creditors were so great that we did not think that given their projected revenue, which was mainly tied to oil production, would be able to service all of their debt. In terms of their willingness to pay, they had a well-established record of not being a good debtor country. By the time the Bank was allowed to reopen in Iraq in the mid-1980's, they had already established a very bad record with other export credit agencies around the world. They had a tendency to play credit agencies off against each other. They were willing to make a dollar in payments only if you provided them with a dollar or \$1.50 in new money.

This type of information is very important in our analysis. We are members of the Berne Union, that is the union of export credit agencies. I attend the Berne Union meetings together with Mr. Charamella usually twice a year. We discuss country policy, so we had direct discussions with other export credit agencies about their experience in Iraq and so we knew they were a bad debtor country; they had a very bad record. So we were concerned about the willingness and ability of Iraq to pay.

Twice a year the staff reviews all the countries where Eximbank does business for the Board of Directors. We don't go into great detail on all the countries because it is about 150 countries, but we focus on the important countries.

In terms of Iraq, we not only did these semiannual reviews, but we did in-depth reviews of Iraq, which are called interagency reviews. We did interagency review for Iraq quite frequently in the late 1980's, one review in 1986, two reviews in 1987, one review in 1988 and three reviews in 1989. That was probably more frequent than any other country that we did this for.

The reason was that Iraq is a very important country—it is a large economy where we had substantial exports. So there was an importance in terms of our mission of expanding U.S. exports. But it was a very questionable country in terms of country risk. So we used the inter-agency review process to evaluate these risks.

In this process the analyst responsible for the country would prepare a detailed written assessment, both text and numbers, and a summary of the experience of other export credit agencies were included.

This assessment would be reviewed by the Vice President, myself, and then would be distributed to the key staff people within Eximbank and to other government agencies. We stay in close contact with analysts in all the other agencies, the Federal Reserve, Treasury, State Department, CIA, U.S. Trade Representative, and so forth.

After distributing the written analysis (usually a week before the board briefing, we would have a briefing), with our Board of Directors. At this briefing, we would go into the Eximbank analysis as well as comments from the other representatives. These briefings would last anywhere from a half hour to an hour or longer, so there was ample opportunity for the Board of Directors to hear from other agencies.

No decisions are made at interagency reviews. However, as a result of interagency reviews, the Board of Directors is informed in a way that allows them to later make decisions when the staff brings recommendations to them on country policy and country risk classification.

Now, let me explain briefly, country policy refers to what type of business we would do in a country, that is, whether we would offer short-term or medium- or long-term cover with restrictions or without, or with particular guarantees or without, Country risk classifications rank countries according to perceived risk. We grade them like in school, A, B, C, D, E, and F. The Bank has a policy of being open in high risk countries. We believe it is important to stay open even in countries where the risks are high but we charge increasingly higher fees to cover higher risk.

In the case of Iraq, even though we were open, we viewed this as the highest level of risk we were willing to take and charged them the highest fee—we would charge of any country and included a surcharge on top of that.

Mr. Charamella, who is in charge of the insurance program, can go in to the actual fees we charged Iraq.

The exposure fee helps Eximbank to cover some of the risk. That is, if we later have a payment problem, this helps to cover the expenses to the U.S. taxpayer.

Now, the Board hears from the staff on recommendations of policy according to the following procedure. First, the Country Risk Analysis Division, or the lending division, can initiate a proposal for change in policy or in country risk classification. Normally, it is the Country Risk Analysis Division because that is basically our job. These recommendations are discussed by the staff in the Exposure Management Committee as Dr. Rodriguez has explained. She is chairman of that committee. I am executive director of that committee and we have representatives at the vice presidential level from the other divisions that are involved in export financing.

So we try to iron out any differences staff may have on country policy and country ranks and then we write a proposal that explains the change in country policy or fee, and the justification for it.

This written document is circulated to the Board of Directors and to the NAC representatives. Then, a Board meeting is held at which the Board will make a decision whether to accept, reject or modify the recommendations from the staff.

Normally, they accept staff recommendations. Rarely, will they ask the staff to reconsider or reexamine. Sometimes they will outright reject the staff recommendation. But normally, I would say my experience is 90 percent of the time or more, they would go with the staff's recommendation.

So you have a very careful process of working up recommendations through the staff, review by the NAC representatives they are at the Board decisionmaking meeting and they can make comments on the recommendations and the Board finally decides.

That is the country policy process and we followed it in the case of Iraq. In particular, the number of interagency reviews show that we were very careful about looking at Iraq in depth with other agency participation.

That really answers the second question as well as the first. From my perspective, was this procedure used in the case of Iraq, and, in fact, in terms of what role other agencies played such as CIA, State and Federal Reserve.

Your third question, that has been partially answered. But you asked another question, how do these agencies influence your country risk analysis of Iraq?

They have a major influence in the following sense: Starting with the analyst, who absorbs a lot of information from the State Department, CIA cables. He has access to secret cables and he sees classified and unclassified materials. This is a very important source of information. So we get a lot of information from the other agencies.

In addition, the analyst will stay in contact with the analysts in these other organizations so there are discussions about our policies and what we are doing.

Occasionally, they will hear from someone like a State Department desk officer who be in a sense recommending changes in policy. He listens to that, but normally the discussion will be at the level of what information do you have. We have these problems; we need this information.

So the operation within the country risk analysis department is we actively interact with other agencies at the staff level to gather information and judgments and viewpoints, then, through the inter agency review process, which I have outlined, and through the Exposure Management Committee and Board meeting process, these other agencies have an opportunity to make an official statement as to their view on the recommendations and the analysis.

The next question, did the BNL scandal influence the country risk process at the Bank? I think it had the effect of confirming our suspicions that Iraq was not a good credit risk. It played games in its financing. It strengthened that impression and gave us more evidence of that, otherwise it didn't have an impact because we had a quite negative view of Iraq's prospects for repayment or in meeting its obligations on long-term transactions.

Finally, how could the country risk analysis process be improved? We are always trying to improve the quality, but I think we are satisfied, and the Board appears to be satisfied, with our procedures as they currently stand. We do not have plans for changing the procedures at this time.

Thank you very much.

[The prepared statement of Dr. Bond can be found in the appendix.]

The CHAIRMAN. Thank you.

Mr. Charamella.

STATEMENT OF ROBERT L. CHARAMELLA, VICE PRESIDENT, INSURANCE

Mr. CHARAMELLA. Thank you, Mr. Chairman.

Once again, my testimony has been presented for the record so I will try to summarize that and be as brief as possible.

Once again, I welcome the opportunity to be here today to discuss Banca Nazionale del Lavoro and Iraq's participation in the Eximbank programs.

We at the Bank have carefully reviewed how both parties have used our programs, and I am pleased to share those findings with the committee.

Mr. Macomber did provide a review to the committee on the coverage chronology in Iraq, so I will not repeat that chronology at this time.

I would like to point out, however, the relationship that we had with Iraq during the time that we were open for business. A clearance mechanism was set up with the government of Iraq whereby only those transactions cleared by the Iraqi Government by Telex notification to us were eligible for cover. Payment had to be in the form of an irrevocable letter of credit, opened or guaranteed by the Central Bank of Iraq.

Where the Central Bank was the guarantor, either Rafidain Bank or Al-Rasheed Bank, two of the major banks in the country, could be the opening bank of the letter of credit.

Deferred payment terms were permissible up to a maximum of 360 days.

Now I would like to make some comments about the overview of our particular program that was used in Iraq.

The program utilized was the Export Credit Insurance Program. This program provides insurance policies at a fee to eligible exporters and banks who seek coverage against political and commercial events of default.

Specifically, the policy used by the commercial banking community supporting U.S. exports to Iraq, was the bank letter of credit insurance policy. All commercial banks doing business in the United States and financing U.S. exports are eligible to use Eximbank's credit insurance program.

We review every bank's application to ascertain its operational history, financial strength, ownership, international experience, and other factors to determine program eligibility.

In most situations, Eximbank initiates direct contact with the financial institutions during its review process. At present, over 130 financial institutions have export credit insurance policies.

Turning specifically to BNL, Mr. Chairman, I will explain their participation in our programs.

After review of BNL's financial standing, its status as an Italian Government-owned institution and its operations abroad and in the United States, programs were made available to BNL. BNL-Atlanta specifically received a bank letter of credit policy, which was used primarily to ensure Iraq letters of credit.

This policy expired in December 1989. BNL was the insured party for 51 transactions aggregating \$47 million; \$34.5 million was repaid satisfactorily.

The last request authorized for cover in favor of BNL-Atlanta was in June 1989. There is currently \$3.5 million outstanding to BNL, which is part of the \$50.8 million of the Bank's present exposure and possible claims in Iraq, that Chairman Macomber mentioned earlier. During the period when we were open in Iraq Eximbank supported 187 export transactions, totaling \$267 million.

Iraq's payment history was checkered with intermittent arrears. Insurance was not provided during the period in which arrears existed.

We were very conscious of other export credit agencies' payment problems in the market, through means of telecommunications and also through the Berne Union meetings. Therefore, the Bank was kept abreast on a weekly, if not daily basis, of payment history of the Iraqis.

This concludes my remarks, Mr. Chairman. I will be happy to answer any questions you after the rest of my colleagues finish.

Thank you.

[The prepared statement of Mr. Charamella can be found in the appendix.]

The CHAIRMAN. Mr. Pilzer.

STATEMENT OF ARTHUR PILZER, VICE PRESIDENT, AFRICAN MIDDLE EAST DIVISION, EXPORT-IMPORT BANK

Mr. PILZER. Mr. Chairman, thank you.

As the Vice President of the Africa Middle East Division, it is my responsibility to implement Eximbank's medium- and long-term programs in all the countries under my jurisdiction. Iraq is clearly in that area.

Because we opened up short-term, however, I did not have the implementation responsibility for that program, Mr. Charamella did, as he testified a moment ago.

It is also my responsibility, Mr. Chairman, to interface with, of course, the other divisions of Eximbank such as our Policy Analysis Division, the Country Risk Division, to offer my comments as to what our policy should be and to recommend such policy to our Board of Directors.

Therefore, when the Country Risk Analysis concur or not concurring, Division analyzed Iraq, we reviewed their analysis, concur or not concur, discuss it with our colleagues and then go to the Board with a joint staff recommendation.

I fully concurred in the recommendation by our Country Risk Analysis Division. At that point in time, I think we recognized that many countries around the world were very active in Iraq.

The British, the French, and other governments had billions of dollars of medium-term credit being offered to the Iraqis.

We had a great deal of pressure from the U.S. business community to do medium- and long-term financing in Iraq. However, again, as Mr. Macomber testified, we have to find reasonable assurance of repayment. Even though our colleagues in Europe were providing medium- and long-term credit, we viewed the situation in a much more negative way, and, therefore, we decided to keep our programs short-term.

In addition to implementing our medium- and long-term programs, I also interfaced with the U.S. business community and listened to their financing questions and passed then along to our Board of Directors, and the Country Risk Analysis Division. We kept the Board informed over the 2 or 3 years of all the large contracts that U.S. companies would have liked us to finance.

The Iraqis also approached us and asked for medium- and long-term financing, and we repeatedly refused to do that.

That, sir, concludes my testimony.

The CHAIRMAN. Thank you very much.

Before I recognize the two remaining witnesses, let me advise that we have a recorded vote signal.

The two lights on the clock indicate that it is a recorded vote.

I think the wisest thing to do would be for us to recess for about, not more than 10 minutes, to allow the Members and myself to record our vote, and then return.

So we ask your indulgence in light of that.

[The prepared statement of Mr. Pilzer can be found in the appendix.]

[Recess.]

The CHAIRMAN. We will recognize our third witness while the rest of the Members record their vote and come back.

Mr. Wisniewski.

**STATEMENT OF JOHN W. WISNIEWSKI, VICE PRESIDENT,
ENGINEERING DIVISION, EXPORT-IMPORT BANK**

Mr. WISNIEWSKI. I am John Wisniewski, Vice President of the Engineering Division.

The CHAIRMAN. Excuse my mispronunciation.

Mr. WISNIEWSKI. That is fine. That is one of the ways of pronouncing it.

Mr. Chairman, members of the committee, thank you for this opportunity to explain the functions of Eximbank's Engineering Division and its role in evaluating U.S. exports to Iraq.

The Engineering Division has the primary responsibility for ascertaining, analyzing, and advising the Board of Directors, senior management, and staff concerning the technical risk and the technical feasibility of the proposed transactions presented to the Bank for financing assistance.

In addition, the engineers provide general technical information, explanations, and interpretations to nontechnical personnel of the Bank.

The division has primary responsibility for the administration and application of the Bank's military sales and foreign content policies.

It also is responsible for administering the Bank's engineering multiplier and operation maintenance programs. In accordance with the Bank's Environmental Procedures published in the Federal Register in September 1979, the Engineering Division is responsible for determining the environmental effects of the project in all long-term transactions.

The Engineering Division provides expert advisory services to the Board management and staff, and represents the Bank on engineering issues with other government agencies, private companies and foreign nationals.

In addition to the responsibility associated with the processing of applications, the division provides advisory services to other functional areas of the Bank, including inter-agency industry policy studies.

Now, concerning the Iraq short-term transactions support by the Bank, the Engineering Division's chemical engineer reviewed those transactions which the loan officer had requested technical assistance because of the possibility of military or chemical warfare usage of the proposed exports. In each case, the engineer determined that the chemical was not a weapon, nor a precursor to a weapon.

The engineer further checked the specific substances in the standard chemical industry references, and "Dangerous Properties of Industrial Materials-Sax," to determine if it could be readily modified to make a chemical weapon.

Following consultation with exporters and on occasion with the Office of Munitions Control at the State Department, the Engineering Division made the determination that it was highly unlikely that chemicals supported under the FCIA policies could be used to make chemical weapons.

The chemical engineer currently refers to the list of 50 precursors in the new rules, Expansion and Imposition of Foreign Controls on Chemical Weapon Precursors, published by the Department of Commerce on December 20, 1989, and March 13, 1991. The chemical engineer examines each transaction brought to his attention for export to chemical process plants or equipment and includes in his findings an engineering evaluation of the transaction. Our involvement with other agencies is somewhat limited when making a decision.

The Bank has consulted sometimes with the State Department, and on occasion, we have coordinated with the Customs Intelligence Division on the export of precursors.

Thank you.

I would be happy to answer any questions that the committee may have.

[The prepared statement of Mr. Wisniewski can be found in the appendix.]

The CHAIRMAN. Thank you very much.

Mr. Proctor.

STATEMENT OF STEPHEN D. PROCTOR, VICE PRESIDENT, CLAIMS AND RECOVERIES DIVISION, EXPORT-IMPORT BANK

Mr. PROCTOR. Yes, sir.

Thank you.

Stephen Proctor, Vice President of the Claims and Recoveries Division. It is probably important, Mr. Chairman, that we are the last to speak today, because oftentimes our division is described as the people in the white coats with the shovels and brushes who are at the end of the parade.

Our division is responsible for the claims that are filed under the insurance and guarantee programs of the Eximbank worldwide. We are also responsible for the direct credits and loans that are more than 90 days in arrears.

Once claims have been paid, once we have addressed problem loans, it is our responsibility to recover these funds. This may involve various sorts of efforts of recovery, workouts, restructuring of debt, and so forth.

Our division also serves as the technical advisor to the Paris Club delegation for the restructuring of official debt.

With respect to the claims in Iraq, in our testimony we have attached an annex which sets forth those claims that have been filed to date, including those claims which have already been acted on. You will note from an examination of that document that we have addressed several claims, one of which has resulted in a denial, and also three which have been approved.

I may add one further thing about our function. The claims on Iraq, as is true with all of the claims filed under our insurance program are filed with our agent in New York, the Foreign Credit Insurance Association (FCIA). These claims are then organized and once FCIA has performed a cursory review, they put the documents together for each claim forward and then send them to us for action.

I will be pleased to answer any questions that you may have.

[The prepared statement of Mr. Proctor can be found in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Proctor, in fact, I thank each and every one of you.

I know some of the members will be coming back, Ms. Oakar particularly, but if they are delayed inordinately, you have been here very patiently since 9:30, so we will act in accordance with that.

Mr. Proctor, we had Mr. Newcomb of the Treasury here, I believe, it was last week, and he was discussing the potential for recovering some of the monies.

What is the likelihood in your opinion that the \$50 million or so in claims that are related to Iraq will be repaid?

Have you been in touch with Treasury with respect to the frozen asset claims relative to their disposition or distribution?

Mr. PROCTOR. Yes, sir. More particularly our Office of Legal Counsel has been in touch with Treasury, and we are working on strategies that we can promptly follow to recover these funds.

I think at this stage it is a little too early to say exactly what that strategy will be, but I think several avenues will be open to us.

The CHAIRMAN. I believe that the one thing that even kind of surprised me, though I really didn't know, and I asked Mr. Newcomb the extent of the Executive order, the President's Executive order of August 9, in which by virtue of that one and another, these assets were frozen.

In a way I was surprised that that Executive order did not cover, and I should have known that, because in our system and the Federal Reserve Board it claims—its inability to go beyond—that is into the private account of the deposit system.

So Mr. Newcomb said that Executive order did not cover private Iraqi accounts, or any other countries accounts, which I think in a way is really astounding, because I brought out and he more or less affirmed the truth of it. I am referring to in the case of the Kuwaiti family, not the government, not the so-called Central Bank, but in the name of the family, they had extraordinarily, substantial amounts, in the range of close to \$300 billion, out of the country in the personal family name.

I would say about, a little better than half of that in the United States. And the other in European and maybe Swiss banks.

Now, it seems to me that with that, and also including every other country, including Iraq, most of the officials, like the al-Sabah family, do place a lot of the monies that we would find inconceivable in our country as being anything but public monies in their private name.

So it would be entirely possible for Saddam Hussein to have direct or indirect personal accounts. It has been reported that a considerable amount of money had been established away by him, outside of Iraq.

And it seems to me that with that and with the question as to just what the meaning is in the case of the assets thus far officially frozen, that the Congress has a clear responsibility there somehow where. And how to approach it, I don't know.

Because we are then, unless we have a change in our form of government, on the outer limits of constitutionally acting. But it is this maze, this interlocking highly intricate system, and the world that we live in today is that way.

We are tremendously interdependent. And I just wonder though in the case of these government funds by the taxpayers, that is the full faith and credit of the government, what the potential would be for recovery. Would you say that there is some encouragement from, say, Treasury as to the ability of the Eximbank to recover, if not all, at least a good portion of the \$50 million?

Mr. PROCTOR. Mr. Chairman, I believe so, from what I have been advised so far, that assets would be sufficient. It depends a lot on the direction, though, that one would take in the strategy of recovery, whether it is done through litigation in the Federal district court where the assets are located, or whether it may take the turn and go to a tribunal, such as the one we had for Iran, Iraq's neighbor.

The CHAIRMAN. Well, in fact, I think it is still in existence.

Mr. PROCTOR. Yes, sir, that tribunal is still in existence.

Fortunately, Eximbank has recovered everything that it paid out with respect to the problems with Iran back in the early 1980's.

The CHAIRMAN. All right, sir.

I have several other questions to some of the other witnesses, but my time is up, and I think we are going to have to stick to the time limits pretty closely.

I will ask before you leave as we have already obtained to submit some of these questions in writing to you.

Each one of you, of course, you have been here before. I wanted to say something, if my colleagues will indulge me.

Mr. Bond has made a very impressive presentation, approves that coming from the congressional level is a mark of superiority, and not the other way around as in the case of legal contracts by some of the regulators.

So I wanted to advise my colleagues that Mr. Bond was with the Joint Economic Committee as an economist; am I correct?

Mr. BOND. That is correct, Mr. Chairman.

The CHAIRMAN. And I wanted to express my thanks to you for your very efficient work.

Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman.

I think it had just come to my attention as to where the gentlelady, Ms. Oakar is coming from, and I think her questions are legitimate.

But I have been supplied now with a—

Ms. OAKAR. Thank you.

Mr. WYLIE. *Christian Science* article, dated, April 12, Friday, April 12, in which you are quoted, Mr. Bond, as having said that in effect, "CCC didn't want risk assessments," that is a direct quote, "as a matter of fact, in their way when implementing their own programs."

So they have a different risk assessment than the Eximbank; is that what you are saying?

Mr. BOND. Thank you, Mr. Wylie.

I would like to clarify sort of the context of that remark.

I don't deny making that remark; it was indiscreet I think, however, in the following sentence: It is the kind of remark in the midst of a very long conversation I had with a report that I made. But it doesn't fully reflect all that I said and that I feel about the CCC process.

As our Chairman mentioned, and as I mentioned to Mr. Kane when he was discussing this with me last week, risk depends upon where you are sitting.

What is appropriate to risk assessment at the Export-Import Bank may not be exactly the same as with the CCC, or with a commercial bank. In fact, there is a great deal of difference between the risk that a commercial bank would have in dealing with a country and an export credit agency.

There is the Paris Club process of rescheduling that the official creditors go through, whereas the commercial banks deal with another club. So in that respect, because different agencies have different charters, as our Chairman mentioned; they have different purposes; they have different collection capabilities, the goods that they are dealing with have different amounts of time and they have different experiences, I would not like to presume that the CCC people do not really concern themselves with risk.

My point was more that they didn't make a different conclusion, even though they did have the information from Eximbank. We did share our information with the Commodity Credit Corporation.

It was in that process through staff level contacts. But I think the comment is much stronger than I would like to have in the record as to my feeling about what CCC actually was doing with their risk assessment.

Mr. WYLIE. Maybe you are not in a position to answer this. But what is the difference between your country review—or excuse me, your country review, the country review by Eximbank and country review as to risk analysis by OCC?

Mr. BOND. CCC.

Mr. WYLIE. I mean CCC.

Mr. BOND. Well, I think we would have commonalities in terms of looking at the willingness and the ability of the country to pay. That would be quite the same.

I think the important difference would be the relationship between the creditor and the borrower. That would be one thing that I would look at.

I don't know exactly how CCC evaluates that. But that is a difference, in that they are supplying agricultural commodities on different terms in different volumes, and the importance of these goods to the Iraqis would have to be taken into consideration.

In addition, they have their own experience in dealing with Iraq, which was quite different from many of the export credit agencies. I had mentioned in my own earlier testimony, there was a clear record of the Iraqis not servicing their debts properly with other export credit agencies.

However, as I understand it, through much of this period, that we have looked at, the CCC had a good payment record, although I understand they also did have some payment problems later in the 1980's.

I would not like to get into my trying to evaluate the CCC program's risk analysis, however, because I don't know the details of how they go about doing it. Although, we have begun to have more conversations with them about our risk analysis and their risk analysis. In fact, they have come to us and studied our system. Furthermore, they have recently implemented a new system themselves and asked us to look at it. So we are in contact concerning the process of risk analysis now.

Mr. WYLIE. In this article also quotes a Treasury official as saying that in the case of a cursory review for Iraq, that Eximbank was asked for a review on four different occasions within a 15-month period.

But the same kind of analysis apparently was not done for the Commodity Credit Corporation, or wasn't asked of the Commodity Credit Corporation. Do you know that to be a fact or not?

Mr. BOND. I don't know that to be a fact. I don't know the frequency of the type of analysis they were doing.

Mr. WYLIE. I don't know how to phrase this question exactly, but it is possible that the country review as far as the Eximbank might be more sophisticated than the country review for the Commodity Credit Corporation?

Mr. BOND. At Eximbank we are very fortunate in that we have a substantial staff devoted solely to this function. In fact, I would say our staff, which is comprised of 10 professional country risk analysts, four of whom have Ph.Ds., and most of the remainder who have masters degrees in economics. Our's is probably one of the largest remaining country risk analyses divisions of any commercial or government agency in the United States.

Much larger now than the money center banks in New York who have trickled down quite a bit in this area.

So we do have a substantial capability, larger than any other agency for this particular purpose of Eximbank, and I think that should give us an ability to do perhaps a more sophisticated analysis.

Mr. WYLIE. As a matter of fact, the CCC might have extended some credit to my agricultural products during that particular period of time. I made a comment a little facetiously earlier, but I think that might, in fact, be the case.

What was the exposure of other countries who dealt with Iraq? Do you have any way of knowing that?

Mr. BOND. Mr. Charamella has the details on that.

Mr. CHARAMELLA. Yes, I do have some exposure figures. The total export credit agency exposure in Iraq, and this is as of 12-31-1990, is \$12.3 billion. Our counterparts, particularly in France, Italy, the United Kingdom, Germany, Japan, had exposure considerably more than the Export-Import Bank.

Specifically, Germany had \$2.8 billion in exposure. France, \$2 billion; Italy, \$2.3 billion; Japan, \$810 million. Now I should point out that those figures encompass the entirety of the export credit agencies support.

So whereas Eximbank and CCC have different functions, those two separate functions are coordinated within the export credit agencies abroad.

So the export credit agency, for example, in Germany would not only support those products that would traditionally be supported by Eximbank, they would also support agricultural commodities, those products supported by CCC, and they would also support military products as well. So it encompassed a broad spectrum of export support from those markets.

So to characterize or to try to look at our exposure, the \$50.8 million in exposure that Eximbank has comparatively with the other export credit agencies, wouldn't exactly be comparing apples and apples, but nonetheless, their exposure is quite a bit.

Mr. WYLIE. You mentioned some sort of a fee arrangement with reference to the credit extended to Iraq a little earlier. You said we will lose about \$50 million.

How much of that \$50 million will have been recouped through fees already paid, or is that a appropriate way of asking the question?

Mr. CHARAMELLA. Well, I think it is. We look at the insurance program in a conceptual manner in that we look at the total amount of premium generated by issuing insurance policies. For example, last fiscal year our total insurance premium amounted to almost \$30 million.

So if you want to compare the total program vis-a-vis the potential losses in Iraq, then the claims-to-premium ratio would not be so dramatic. But you have to keep in mind, sir, that we are looking at the worldwide program in the insurance program, so we are not only looking at the potential claims in Iraq, we may be looking at potential claims in other markets.

But I do not have in my mind a figure of premium generated supporting the sales into Iraq.

I would imagine it would be, roughly, between \$5 and \$10 million of premium generated.

Mr. WYLIE. If you could supply that for the record, I think it would be helpful.

I have been given a note that my time has expired, Mr. Chairman.

Ms. OAKAR. Thank you, Mr. Chairman.

Mr. Bond, you gave pretty extemporaneous testimony, and your written testimony is very devastating relative to Iraq's credit and the credit risk of Iraq.

And you also mentioned in response to Mr. Wylie's point that you did supply the analysis to CCC, and to NAC. What was their reaction?

Mr. BOND. I don't know what their reaction is, because they did not make a reaction back to me. In the instances where they were provided with the information, either it was in a *passé* sense that they would reference documents or they had access to documents, or they had attended our meetings.

I don't recall at our interagency review their saying anything more than reporting on their own experience with Iraq, which they, I think, at the time of these emergency review were not experiencing payment arrears. And as we pointed out in our own analysis for our Board, the CCC program was one of the very few credit programs, official credit programs that did not have payments problems with Iraq, up until very late.

The British Export Credit Agency managed to have a fairly good payment insurance with Iraq, and that was attributed to the fact that Britain had a special relationship with Iraq, and an agreement that kept the Iraqis servicing debt to Great Britain. The CCC program had a good payment record, and Eximbank had a pretty good payment record.

Other export credit agencies were reporting dismal experiences with Iraq, and were going off cover, bilateral reschedulings were going on, and the Iraqis were still not servicing a bilateral——

Ms. OAKAR. But you never go a—your colleague listed all the other loans, some of the loans from other countries. But you know, the American taxpayers, \$5 billion is a lot.

Maybe the Iraqis wanted to make sure that there was no exposure relative to the types of products that were being covered. I don't know. But that is interesting that they didn't have a real problem with respect to CCC.

Let me ask you, what type of loan did the Eximbank finance? What products were they?

For anyone appropriate.

Mr. CHARAMELLA. Yes, ma'am. We have, of the 187 transactions that were cleared in Iraq, we have a very wide myriad of products that were supported. They range anywhere from paper to tractors, various spare parts, many pharmaceuticals, polyester yarn, and tires.

Ms. OAKAR. What kind of pharmaceuticals?

Mr. CHARAMELLA. I can't be specific at this point in time. I think most of them were immediately related. They went to the State organizations for drugs and medical applications.

Ms. OAKAR. Trucks? Did you finance anything for trucks?

Mr. CHARAMELLA. We did finance the sale of some medical ambulance trucks to the Iraqi Government during this period of time, yes.

Ms. OAKAR. How many of those did you finance?

Mr. CHARAMELLA. It was one transaction. I believe there were 40 vehicles involved.

The total amount of the transaction was \$11 million.

Ms. OAKAR. Well, you know, we are talking about relatively small amount of loans, I mean compared to the bills of the CCC.

But when you look at the entire portfolio of the Eximbank, it is not a small amount of money.

I mean you are asking, or the administration is asking for about \$9 million this time. That is a fairly substantial amount of transactions, I would think, relative to the portfolio.

Mr. Pilzer, you mentioned that there were a lot of projects, and we have a mini-list of products that American businesses you mentioned put a lot of you under tremendous pressure to finance these transactions. GM, for example, wanted to have 50 million or 50,000, rather, automobiles financed, and I understand one of the subsidiaries that would have benefited is the corporation from my own area, Eaton Corp.

Why did you feel they were putting tremendous pressure on you? Is that normal, or was this just a special kind of situation?

Mr. PILZER. Normal, it is perfectly normal. We respond to applications made to us by the U.S. business community and by foreign buyers, but primarily from the U.S. business community.

GM, Bechtel, and other large companies would frequently come into us on Iraq and tell us of the vast opportunity that they had to sell U.S. products, thus creating U.S. jobs in the United States, if we could see fit to open up our program for medium- and long-term financing, which the Iraqis wanted.

We repeatedly indicated to the U.S. companies that although we recognized that jobs would be lost if we did not finance the sales, we were not prepared to do so because of the Bank's legislative requirement to find a reasonable assurance of repayment on any transaction we support. We only felt comfortable with our short-term program because of the lack of payments that were being made to other ECA around the world, other export credit agencies.

Ms. OAKAR. Did any members of the administration or any Members of Congress ever call you relative to any of these situations?

Bechtel is, you know, is one corporation that relates to some former civil servants around here. And they want—they are right in there in the Middle East, that is a for sure.

Did you have any pressure from Members of Congress or any members of the State Department, for example?

Mr. PILZER. Again, I think the word pressure is probably the wrong term. What I would say is we have had congressional letters come to us inquiring as to why we would not finance a Bechtel project or a GM project, and we therefore respond indicating our economic analysis and political analysis of the country.

But we didn't get pressure to do something that we had decided we should not be doing for economic and financial reasons.

Ms. OAKAR. So you didn't feel that normal requests of your looking into the people being advocates for the company, that is many Members of Congress do feel the need to be advocates for people in their own districts, and so on.

What about in the administration?

Did anybody in the State Department or various agencies ever pick up the phone or write you a little note on something?

Mr. PILZER. No, Ma'am, they did not. In fact, the State Department made it very clear to us that they would not second guess our decision not to provide medium- and long-term credit.

Ms. OAKAR. One last question, Mr. Chairman?

Mr. Wisniewski, you mentioned in your testimony, and the Chairman Macomber mentioned it as well, that you weren't positive, but you did not see any chemical weaponry in terms of the types of loans that were given to Iraq; is that correct?

Mr. WISNIEWSKI. There were eight transactions brought to the attention of the Engineering Division, and these were referred to by my chemical engineer. And the chemical engineer from a professional standpoint made the determination, based on reference books and his own knowledge of the area that it was highly unlikely that these products could be used for chemical warfare.

Ms. OAKAR. What relationship were they to any type of chemical industry?

Mr. WISNIEWSKI. Well, they were—I am not a chemical engineer, but as I understand it, they were normal, off the shelf type things, used like for termite control and pesticides, that type.

But they did not contain any of the so-called listed precursors such as are in the Department of Commerce's list. And also, the fall-back position, too, is the export license would eventually weed that out.

From our personal standpoint from our military policy, it was required of the engineer to look at and make a determination whether or not it could be used for chemical warfare.

Ms. OAKAR. Why are you still dealing with Banca Nazionale? You just mentioned in their testimony that a few days ago you—don't you have some question marks about that?

On page 4 of Mr. Charamella's testimony, you say, "BNL New York has used the Eximbank working capital guarantee for 10 transactions. The latest transaction was approved within the last few days."

Then you say, "None of it went to Iraq, but the aggregate value of these transactions are \$5.7 million." Why are you still dealing with this institution? Why don't you have any questions about it?

Mr. CHARAMELLA. I think any questions that we have, Ma'am, have been resolved to the extent of activity of the Atlanta branch of BNL.

Ms. OAKAR. So you don't hold the New York branch much responsible for the Atlanta branch?

Mr. CHARAMELLA. No, Ma'am, nor do we hold the home office, to the extent of our relationship with the home office. I mean we look at BNL in Rome as a very important financial institution in the marketplace in Italy, and we are looking we feel at an isolated incident in Atlanta, and we really have not looked upon any activity that is done by other branch offices of BNL to—

Ms. OAKAR. I bet the American banks would love to be viewed that way, where the bank itself wasn't held responsible, as opposed to the just the branch being held responsible. I mean really.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Well, there is, I think, a necessity to pursue for a few minutes anyway.

At the outset, I provided for the record the documentation that is styled "Overview of Eximbank Country Risk Analysis Process," and in that documentation dated July 18, 1988, there is a memorandum to the Board of Directors. And it is from Thomas A. For-

bord, Vice President for Country Risk Analysis, I guess, at that time.

And the subject is the country review of the Republic of Iraq on Monday, July 25 at 10 a.m. So this memo was in prospective.

"Attached is the Eximbank's staff paper prepared by Clement Miller of the Country Risk Analysis Division, which will serve as a basis for the above referenced discussion. It has been distributed with the Bank and to outside agencies. Representatives of the agencies listed below will be at the review to offer their reviews."

Now, here is the outside agency: CIA; Representative of the Office of Global Issues and its Office of Near East-South Asia analysis; the Commerce Department; R. Lee and J. Keller; the Federal Reserve; R. Emery; State Department; A. Sundquist; L. Pope; A. Glaspie, which is Ambassador Glaspie; and P, like in Paul, Remmler; Treasury Department; E. Barber; J. Nisenson; the U.S. Trade Representative Office; M. Gallivan.

Now, in that is a country review of the Republic of Iraq. "Introduction: After years of war against the Kurds and Iran, Iraqi Arabs nurture a mixed sense of insecurity and destiny. They want Iraq to remain a powerful military force, yet desire a resumption of economic development.

"Saddam Hussein does not wish to disappoint Iraqi Arabs. He intends to achieve Iraqi Arab's multiple political, military, and economic objectives through accelerated application of modern technologies, greater exploitation of oil reserves, and skillful manipulation of its relationships with foreign powers and their official creditors.

"This manipulation will be necessary because for the foreseeable future, Iraq will not have enough money to repay all of its foreign creditors."

So this kind of position, so to speak, is going to be reviewed by this committee consisting of all these representatives; normally that is the procedure. So we cannot say that the Export-Import Bank did not communicate or advise with these others.

In other words, these other agencies from State Department, Commerce Department, CIA, were fully advised.

Then, what is more disturbing, is another document that I am going to ask be placed in the record at this point, and it is entitled, "Manufacturing Project, Iraq, July 18, 1989."

[The information referred to can be found in the appendix.]

Mr. WYLIE. What was the date on that, Mr. Chairman?

The CHAIRMAN. July 18, 1989.

Now, this, I believe, is from the Eaton Corp., and the first paragraph says, "Assumptions before trip, June 25, 1989."

Obviously this industry group, appearing before the Bank and saying, hey, we want business.

And there is this other document that shows the membership: Volvo; GM; Heavy Truck Corp.; Cummins Engine Company, Inc.; Eaton Corp., and Rockwell Corp.

They went on ahead, and here are their assumptions as they are listed: "Volume of up to 5,000 units a year, but probably no more than 2,000 to 3,000 units a year. Exports of surplus to neighboring countries, equity participation, Iraq's way of assessing our interests

not seriously considered. Local integration, technological infrastructure not known to exist."

They go to Iraq, and they visit the industrial sites in Iraq.

"Plan 6: CNC lathes, assembly line under Matrix Churchill license."

In the second step early next year they will machine the frames and mechanical parts; and in the third phase, it will go to the Eli Connie's. It is interesting to know that Matrix Churchill in the United Kingdom is 75 percent owned by the Iraqi Government.

And we are told that a similar project exists for the manufacture of CFC machine centers. The building is already under construction.

Now, what was that for? That was for heavy truck plants. Actually, a copy of this is in the form of a letter to the Ministry of Industry. But they forgot to put the full title, and that is, the Ministry of Industry and Military Production is the full title.

So that to its everlasting credit and glory, the Export-Import Bank did not process this despite very heavy lobbying.

We also have a document showing congressional intervention—

Mr. WYLIE. You glanced over at me. Is my name on there?

The CHAIRMAN. No. But we have always asked the question, have you had political pressure? And I am going to submit for the record here a list of the loan officer's file compiled in March 1991, and listing interventions from September 18, 1989 through August.

From August to September 1989, and obviously these were Members of the Congress who had manufacturing plants in their districts and were supporting and intervening in behalf of this particular Eaton and combination application. So I wanted to show here the vast difference.

Now, we have documentation showing that in the case of the CCC, the CCC, let me say, Ms. Oakar, did have occasions in which it did deny and not recommend Iraq guarantees because of poor payment records. But then they have also faced considerable pressure.

But there, I think we can conclude that the agricultural lobby is a lot more stronger than these other lobbyists because they were able to overwhelm the CCC and actually go against their judgment, which, as I say, in repeat to the everlasting glory and credit of intervention did not capitulate.

And that is pretty heavy pressure, let me say.

The CHAIRMAN. I have worked on the other side of things. I have been on the employee side, and when anybody tells me that there is no such thing, that you can always have a free judgment, maybe so, if you are on top. But if you are in a take-odds employee capacity, it does add up.

Yes, Ms. Oakar.

Ms. OAKAR. Mr. Chairman, I just wanted to point out, the bottom line of this interesting hearing is that the administration did know well in advance of Saddam Hussein's threat militarily. I mean, from the Eximbank to the, probably—

The CHAIRMAN. Will you yield to me on that?

Ms. OAKAR. Sure.

The CHAIRMAN. This is again, this is a kind of world that has been shaping up, and particularly, rightly or wrongly, the failure of our countries to develop any kind of farsighted, long-range, since World War II.

This is the reason that I joined Chairman Annunzio awhile ago in saying, hey, look, we think the Eximbank has been right in its policy on military sales. We don't think that this is the time to change, if it ever was.

And the reason is that at that time, it was a stated policy of this country to do everything we could in behalf of Iraq.

Militarily, we were providing Iraq during the Iraq-Iran conflict sophisticated knowledge because of our satellite observations that helped Iraq considerably in reaching the point it did, and whether you want to call it a stalemate or a victory for Iraq.

So you can see here that it took considerable integrity to stick to the stated purposes and the facts as presented by the analysts to stay there in view of this heavy presence, even the list that I mentioned awhile ago.

That is pretty heavy presence. And, of course, they were faithful to this respective department heads whose policy it was at that time to consider Iraq as an ally or quasi ally.

So that today, we may say yes, why not make the sale at this time under these circumstances to this country that can very well, through some at this point not determined or foreseen change of events becomes an adversary.

And given that kind of a situation, I think the record is illustrative, though, that when we in the legislative or the executive branch are faithful to our main charge and our oath of office, we are not going to stray too far.

It is only when we stray away from these basic principles that we get into trouble. And I think that it is shocking for us to have conducted a policy right up to the invasion of Kuwait that was indicative of a stimulating and encouraging policy to Iraq.

Mr. WYLIE. Mr. Chairman?

The CHAIRMAN. Yes, Mr. Wylie.

Mr. WYLIE. I would observe that we do not have a crystal ball, unfortunately, and there is a lot of hindsight going on here.

But I would also observe in the case of the CCC that this article also indicates that Iraq was the largest market for U.S. rice exports and a big buyer of U.S. wheat until August 2, 1990.

Now, I have a very strong feeling that the farmers of this country might equate in that consideration as far as CCC is concerned. Do you think my observation is accurate there?

The CHAIRMAN. I am sure.

Mr. WYLIE. Now, I want to ask a question, though. Recently both the CCC and the Eximbank made loans to the USSR, despite reservations from private credit ratings, private credit ratings agencies that the USSR may not be a very good credit risk right now.

And it seems to me that there is some analogy here with the situation with reference to Iraq, maybe 2 or 3 years ago.

What is Eximbank's credit risk rating of the USSR right now?

Mr. BOND. When the Jackson-Vanik waiver was initiated at the end of last year, the Board listened to a review by the Country Risk Analysis Division that pointed out that while the Soviet

Union had arrears, there had been no arrears on any transactions guaranteed by the Vneshekonombank, the bank for foreign economic affairs of the Soviet Union.

Our policy, therefore, was the following: We opened up all of our programs with the Soviet Union, but we required the Vneshekonombank provide a guarantee on all transactions in the name of the State.

That is a sovereign guarantee. The rating that we gave them was a fairly middle rating for short-term transactions and a high risk rating for medium and long-term transactions.

Also we still have under the Stevenson and Byrd amendments congressionally mandated limitation on the total amount of commitments in the Soviet Union. Therefore, we have a limitation on how much business we can do.

Our view is different from the commercial banks in the sense that first, we do take risks that commercial banks will not take.

That is why we have an Eximbank, to cover a part of the market the banks won't cover. But I think in addition, the Vneshekonombank is a guarantee that if the commercial banks could get it, they would do business with the Soviet Union, too.

Many of the commercial banks, however, have reached their own internal limits on the amount of exposure they want to carry with the Soviet Union. So you have very few commercial banks who at this time will take on new exposure with the Soviet Union without Eximbank's guarantee at this time.

Mr. WYLIE. There are a lot of shifting winds in the political arena, and whereas I think maybe the risk that the Soviet Union would repay was less, perhaps, maybe 2 or 3 months ago or 6 months than it is now?

Is that a fair observation?

Mr. BOND. Certainly. Their credit standing is dropping in everyone's eyes, including ours. And I am sure we will be watching the situation and trying to adjust our program accordingly.

Mr. WYLIE. Do you have any apprehension or fear that the Soviets might use some of the credit that they obtained from the Eximbank for military action in the Baltics?

Mr. BOND. I think Mr. Charamella can remark on some of the products.

Mr. WYLIE. That is a kind of rhetorical question.

Mr. CHARAMELLA. I really don't think so.

Again, we prescribe to a clearance procedure that reviews each and every transaction that is going forward, especially with the USSR and the country creditworthiness issue that we have before us today.

We have at this point looked at some manufacturing plants, but nothing militarily related.

Mr. WYLIE. Well, I would observe that it is too bad that we loan Saddam Hussein or Iraq any money at all.

I think Saddam Hussein is even stupider than we thought he was when he invaded Kuwait and incurred the wrath of George Bush, the President. I don't think that he thought that we would ever try to defend Kuwait or force him out of there.

But be that as it may, I think there are some parallels here now that we ought to take a look at, maybe make an examination of those two.

Thank you.

Ms. OAKAR. Mr. Chairman, may I ask one quick question to Mr. Pilzer or the other gentleman?

The CHAIRMAN. Certainly. Fine.

Ms. OAKAR. Did you portray the truck sale, the desire for this loan to finance the trucks that the chairman described in complete form as military trucks? Even though the loan was rejected, did you portray that as military?

Mr. WISNIEWSKI. I will respond to that. This was a transaction that under our normal military policy, we looked at the criteria. It was being sold as a military export, but it met one of our exceptions, that being humanitarian.

Under Eximbank's policy, the transaction was submitted to the Board and approved.

Ms. OAKAR. You are talking about a different project. I was talking about—Mr. Pilzer, I think you know what I am talking about.

Mr. PILZER. No, ma'am, I am afraid I don't.

We have been off cover medium and long term. I don't recall an application coming in.

Ms. OAKAR. GM didn't?

Mr. PILZER. I know about the GM truck plant.

Ms. OAKAR. That is what I am talking about. Did you see it as a military—

Mr. PILZER. No, ma'am. We rejected their application because we were off cover for medium and long term. And they needed medium- and long-term credit.

Ms. OAKAR. You never analyzed it in any way?

Mr. PILZER. We never got to that stage because it was ineligible at that point in time under our program.

Ms. OAKAR. How did GM present it to you?

Mr. PILZER. As I recall, I was in a meeting with GM, and they portrayed it to us in two ways. One was a sale of automobiles. Second, I think there was a plant to either build trucks or cars.

Ms. OAKAR. But not military, or did they portray any aspect of—

Mr. PILZER. No, they were not portrayed to us in any way as being military, and we never got into the analysis again because we did not receive or accept the application.

Ms. OAKAR. Just one last point, and you don't have to respond if you feel your job is jeopardized.

But you are the senior staff that the chairman has given accolades to and I think we all agree had a measure of independence that is admirable.

Do you agree with the policy, the desire, to have military equipment, and so forth, be part of the Eximbank's portfolio, loans for those?

Does anybody want to comment?

Mr. BOND. You know the position we are in, but I would say that I would put out that there was some interagency discussions about this before the decision was made. And my concern was creditwor-

thiness, and I pointed out to the other agencies and my Chairman backed me up 100 percent.

He said, even countries on the list that we were approved to sell military goods to, if we viewed them as uncreditworthy by our standards, or maybe even tighter standards, we would reject them.

And I made that clear in the interagency discussions, and he made it clear he would back up that program.

Ms. OAKAR. In terms of subject matter, do you want to get into that, or would you rather not comment?

Mr. PILZER. Ma'am, I don't think it is appropriate for us to comment on that as to our opinion on these administrative matters.

We simply implement the programs that Congress and the administration tell us to implement.

Ms. OAKAR. Thank you, Mr. Chairman.

The CHAIRMAN. I think in a way it is not appropriate. We did ask Chairman Macomber, and that was the proper person. He is the chairman of the policymaking level.

Ms. OAKAR. We hope he listens to you guys, though.

The CHAIRMAN. Well, I think that as we see it in the case of banking and everything else that we have gone into in other areas, if the top would listen to the middle, we would be all right.

It has been a very dedicated core of sub-level, middle level regulators and staffers that have done great work. They have not only been efficient and prepared, but they have been integral; and that is the record of all the hearings we have had here.

To me, that is good because I have always—I had the privilege of serving on all three levels in the Representative capacity. I served on the local legislative body as a City Council, served in the State Senate of Texas, and then here; and now I am going to 30 years.

And let me tell you the first thing I noticed was the tremendous difference in the skill, the ability of the work core on the Federal level. It has been with great pain that I have seen the generation of the merit system that I always felt was a sacrosanct section of the Federal Government.

But anyway, we want to thank you very much.

Do you have any additional questions?

Mr. WYLIE. No.

Thank the panel.

The CHAIRMAN. I don't want to keep you here. It is going to be 1 p.m., and it just isn't fair. But these documents will be part of the record, and I will have about, maybe, three or four questions in writing for the purposes of the record.

You will each get a transcript of the proceedings for your review and correction, and if the questions arrive in a time, then if you would favor us with an answer, fine.

Thank you very much, gentlemen. We deeply appreciate your testimony, and once again compliment you.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

APPENDIX

April 17, 1991

**Opening Statement of the Honorable Chalmers P. Wylie
Hearing on Iraqi and BNL Participation in Export-Import Bank Programs
April 17, 1991**

Thank you, Mr. Chairman,

We have the opportunity today to hear from the Export-Import Bank on their policies toward dealing with Iraq and the Banca Nazionale del Lavoro during the late 1980's. From reading today's testimony I think that we can conclude that the Ex-Im bank did a very good job of analyzing Iraq's foreign credit situation. In retrospect, I wish that the Commodity Credit Corporation had been as vigilant.

However, before we rush to any judgements or recriminations involving Administration policies, I think it is wise to view the Iraqi credit situation from the perspective of U.S. foreign policy during the time that credits and guarantees were extended to Iraq. During the mid 1980's, concern about the stability of the middle east, because of the threat of domination by Iran, caused our government to restore diplomatic relations with Iraq. During 1985, many U.S. banks participated in Ex-Im backed lending to Iraq. During 1989 and 1990, our government was again engaged with Iraq in order to attempt to encourage policies of moderation. One way to obtain influence over a country is to offer the government-backed export of American commercial products and commodities. This policy was attempted again in 1989 and 1990. Since then have realized that the attempt to use trade policy against Saddam Hussein was pure folly, but, at the time, it was viewed as a plausible way to

influence Iraq.

I think it is worth noting here that there is far more governmental scrutiny of U.S. trade policy as it effects foreign policy concerns than there is in other exporting countries, especially in Europe. Most European countries' trade policies are driven by commercial, rather than political, concerns. We have seen evidence of this in the construction of chemical and nuclear plants in Libya and Iraq, and the German built concrete bunkers in Baghdad.

There is another important difference between our government and those in the EC. Our system has more public accountability as evidenced by our hearing today. Many governments would sweep a controversy like this under the rug. I commend you, Mr. Chairman, for you vigilance in these BNL hearings and look forward to working with you.

My major concerns are in the area of the supervision of the banks that engage in Ex-Im and CCC-backed lending. I would like to know how a foreign bank could use an American branch to obtain over \$2 billion in CCC guarantees and keep them on a separate set of books; while the bank regulators were totally unaware of these loans. I look forward to learning how this could happen and what we need to do to prevent this from happening again.

STATEMENT OF HON. GERALD D. KLECZKA
APRIL 17, 1991

MR. CHAIRMAN: Thanks for calling today's hearing on Iraqi and Banca Nazionale del Lavoro (BNL) use of the Export-Import Bank short-term foreign sales insurance program.

An unflattering picture of the breakdown in government accountability has emerged from the Iraqi/BNL fiasco. At its most benign level, the present situation implies the National Advisory Council was duped by a multi-billion dollar Iraqi Ponzi Scheme. At its worst level, the present scandal demonstrates the Administration's eagerness to gamble recklessly in Iraq with billions of taxpayer dollars -- while possibly sacrificing national security.

The depth of this financial quagmire is truly staggering. Admittedly, Eximbank's \$73.5 million exposure from Iraqi defaults is only a small portion of the \$2 billion in claims the U.S. government must now honor as a result of this scandal. However, this sum is more than 10% of the bank's Fiscal Year 1991 program pool. It would have been much better used underwriting dozens of U.S. exports to **proven allies** -- rather than dubious sales to bolster the grandiose and dangerous schemes of Saddam Hussein.

From 1986 to 1990, Eximbank conducted thorough Country Risk Analyses on the Republic of Iraq. None could possibly be construed as positive. Indeed, the bank repeatedly noted Iraqi disdain of commonplace debt practices and international financial policies. The bank considered Iraq a bad credit risk, based on numerous arrearages here and abroad. Eximbank also uncovered the calculated Iraqi strategy of relying on payments on existing debt to extort new money from U.S. export agencies, such as the Commodity Credit Corporation (CCC).

The National Advisory Council ignored these compelling Eximbank reports, although they were available to its members. Hindsight raises doubts about whether the Council's decisions affecting Iraq were based on sound economic appraisals. If the Council was vulnerable to political pressure favoring Iraq, as I expect the testimony will show, it must be reorganized without delay to prevent such costly and dangerous situations from arising again.

The history of this scandal will assign Eximbank the role of Cassandra, who in Greek mythology foretold disaster. It is for this reason that I am very curious about why the bank ignored its own findings, and opened a \$200 million short-term insurance facility for Iraq in 1987. This decision appears to have been prohibited by the bank's statutory requirement to support only transactions which "offer a reasonable assurance of repayment." Furthermore, why was the bank poised to approve the establishment of a generous medium-term credit program for Iraq during this period? I look forward to learning more about these specific issues from the panelists.

If there is a "silver lining" to this disgrace, it is that we may include reforms, based on what we learn about Iraqi/BNL manipulation of Eximbank programs, in its charter as part of the Fiscal Year 1992 reauthorization. Thank you.

STATEMENT OF
JOHN A. MACOMBER
PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 17, 1991

Mr. Chairman, Members of the Committee

I welcome the opportunity to be here today to discuss the Export-Import Bank of the United States' (Bank) relationship with Iraq and Banco Nazionale de Lavoro (BNL).

The Bank is currently not open in Iraq. Pursuant to Executive Orders that were issued by the President and dated August 2, 1990 and August 9, 1990, U.S. exports to Iraq, as well as financing for them, were banned. The Bank's Board of Directors formally withdrew coverage on August 9, 1990.

Background

From July of 1987 until August 2, 1990, the Bank provided only short-term insurance cover (up to 360 days) for U.S. exports sales to Iraq. The Bank set a \$200 million aggregate limit on the revolving short-term insurance facility. Prior to July of 1987, the Bank had been off-cover for the preceding sixteen months

because of payment difficulties. However, before the Bank reopened in Iraq all arrears were paid in full.

In July of 1987, the Bank opened very cautiously under the short-term insurance program in order to gather repayment experience. This was despite considerable pressure from the American business community to open longer term as well as competition from other foreign export credit agencies who were open for short, medium and long-term cover in Iraq. It was determined that if the Bank at any time during the operation of the facility experienced any arrears we would suspend the issuance of cover. While we were operating the facility, the Bank's staff monitored our coverage on a continuing basis because of creditworthiness concerns. In fact, whenever there was a long period of delay or arrears, the Bank suspended any further short-term cover.

Once we reopened, Iraq continually requested that we expand our cover to include medium and long-term transactions; however, we declined. At no time did we allow our exposure to exceed the \$200 million limit previously set.

The Bank's willingness to continue the operation of the facility was contingent upon Iraq's willingness and ability to service its existing debt to the Bank and the U.S. Government in a satisfactory manner.

Application Procedure

A clearance mechanism was set up with the Government of Iraq whereby only those transactions that were cleared by the Iraqi Government by telex notification to the Bank were eligible for coverage. Payment had to be in the form of an irrevocable letter of credit opened or guaranteed by the Central Bank of Iraq. Where the Central Bank was guarantor, either Rafidain Bank or Al-Rasheed Bank could be the opening bank for the letter of credit. Deferred payment terms were allowed up to a maximum of 360 days.

Policies Used

The actual insurance policies used by Iraq were the standard Foreign Credit Insurance Association (FCIA) Short-term Single Buyer and the Bank Letter of Credit.

In general, both insurance policies indemnify the insured party--the U.S. exporter or U.S. financial institution--against the risk of non-payment on the part of the Iraqi opening bank on a letter of credit issued in payment for Iraq's purchase of eligible U.S. goods.

The Short-Term Single Buyer Policy was utilized by U.S. exporters (non-financial institutions) and the Bank Letter of Credit insurance policy was utilized by U.S. banks.

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If the exporter was the insured, in most cases, it would assign its insurance policy proceeds to the U.S. bank as collateral so as to obtain funding after shipment of the goods and negotiation of the letter of credit. The U.S. bank would then collect the funds from the Iraqi opening bank at maturity.

If the U.S. bank was the insured, it would issue the beneficiary an irrevocable commitment to pay under the Iraqi letter of credit (silent confirmation) upon presentation of documents as stipulated in the letter of credit. After the credit was negotiated, the U.S. bank would also collect the payment at maturity from the Iraqi opening bank.

In either case, if the Iraqi opening bank did not pay, the insured party could file a claim with the Bank.

Limited Bank Exposure

Current Bank exposure in Iraq is \$50.8 million. The Bank expects a total of \$50.8 million in claims under the facility, of which \$2.8 million have been approved for payment, and \$46.5 million are pending at FCIA. These claims are being treated as a purchase of assets by the Bank, which we intend to work out with the Iraqis at some future date.

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BNL Facility Participation

The Bank's programs are available to any financial institution which is determined to be creditworthy as required by the Export-Import Bank Act of 1945, as amended.

After review of BNL's financial standing as well as its operations abroad and in the U.S., the Bank made its programs available to BNL offices in Rome, New York and Atlanta.

Under the facility, BNL-Atlanta received a Bank Letter of Credit policy which expired on December 31, 1989. This policy was used to insure Iraqi letters of credit. BNL was the insured for 51 transactions or shipments which aggregated \$47 million, of which \$43.8 million was paid satisfactorily. There is currently \$3.5 million outstanding to BNL which is included in the \$50.8 million of actual exposure to Iraq and will likely result in a claim.

* * * * *

National Advisory Council Process

I would like to now turn to the specific questions you have asked me to address in today's testimony.

The National Advisory Council (NAC) was established to coordinate international trade and financial policies of the U.S.

Government. The NAC is a forum to air and discuss international trade and financial activities. In this connection, the function of the Council is to review all of the Bank's proposed loan and guarantee transactions that are equal to or exceed \$30 million. As far as insurance is concerned, the Council reviews all insurance transactions involving a Bank liability of \$50 million or more. The Council is composed of seven members--the Secretary of Treasury, the Secretary of State, the United States Trade Representative, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Director of the International Development Cooperation Agency and the Chairman of the Export-Import Bank of the United States. Formal meetings are only occasionally held; usually a telephone poll is taken of members.

As a matter of policy, the Bank generally does not take exception to specific transactions at the NAC with regard to matters that involve other agencies, e.g. the Commodity Credit Corporation (CCC), provided such transactions fall within established program parameters. Our interest is related to our financial activities, and to ensure that the programs and policies of other U.S. Government sponsored international finance programs are not in conflict with the Bank's objectives. Therefore, in any poll taken with regard to Iraqi participation in CCC programs the Bank representative would not have raised any objections.

Functions of Country Risk Analysis

The Bank's Country Risk Analysis Division reviews and analyzes for the Board, senior management and staff the economic/political conditions (country conditions) for any transaction. Furthermore, the Division does a semiannual review of the economic conditions in all countries in which the Bank currently operates. Special meetings also are held to update the Board on a deteriorating economic situation in any country.

Functions of Engineering Division

The Engineering Division has the primary responsibility for ascertaining, analyzing and advising the Board of Directors, senior management and staff concerning the technical risks and technical feasibility of proposed transactions presented to the Bank for financing assistance. In addition, the engineers provide general technical information, explanations and interpretations of products and projects to non-technical personnel of the Bank. The Division has primary responsibility for the administration and application of the Bank's military sales and foreign content policies. It is also responsible for administering the Bank's Engineering Multiplier and Operation and Maintenance Programs. In accordance with the Bank's Environmental Procedures published in the Federal Register September 4, 1979, the Engineering Division is responsible for determining the environmental effects of the project in all long-term transactions.

Concerning the Iraq short-term transactions, the Engineering Division reviewed those cases which the financial loan officer had requested technical assistance concerning potential military or chemical warfare usage of the proposed exports. Following consultations with exporters and on occasion with the Office of Munitions Control at the State Department, the Engineering Division was able to make a determination that "it was highly unlikely" that chemicals supported under the FCIA policies could be used to produce chemical weapons.

Chronology of Board and Other Inter-agency Meetings

In October 1988, the Board deferred consideration of medium-term cover, citing concerns over Iraq's creditworthiness, and the fact that the Bank was experiencing delinquencies on the first two letters of credit. At that time, officials from other agencies supported medium-term and long-term financing from the Bank because of potential business opportunities for the U.S. business community. In November 1988, the Board again deferred consideration of medium-term cover. The reasons cited at that time were the U.S. Government's concern over Iraq's use of chemical weapons and the fact that the National Security Council was reviewing U.S. policy towards Iraq.

In April 1989, at an Interagency Country Review session on Iraq, the Bank's economic analysis raised serious questions about Iraq's financial capabilities and noted that Iraq was increasingly

financing a military machine. In fact, Iraq seemed to be making debt repayments contingent upon receiving larger amounts of new money. Moreover, the Bank's concerns were heightened by the possibility of renewed military conflict between Iraq and its neighbors, and continued fluctuations in U.S. Iraqi relations.

In June 1989, the Bank again held an Interagency Country review further describing Iraq's difficult economic situation. While the Bank's concerns were more widely shared by other agencies, it was still pointed out that the Bank's actions could result in the loss of opportunities for U.S. businesses.

In October 1989, the Bank conducted its third Interagency Review Update. The Bank was continuing to experience difficulties in receiving payments under letters of credit. Furthermore, in spite of growing international pressure, Iraq was continuing to refuse to undertake a multilateral rescheduling of its debts through the Paris Club. In addition, Iraq was continuing to cajole export credit agencies through offers of lucrative contracts to their exporters. The discussion also focused on the just-unfolding BNL scandal.

In November 1989, the NAC Agency Deputies held a meeting to discuss Iraq's request for a second CCC tranche. At that time, discussion focused on Justice lawyers' findings about the BNL scandal, and the reason why the Bank viewed Iraq as a risky market.

Also in November 1989, the Bank had temporarily shut down the facility to Iraq because of the likelihood of inclusion of a Congressional prohibition in the Foreign Assistance Appropriations Act of FY'90. This prohibition, however, provided for a Presidential waiver, which was exercised in January 1990. The Bank then reopened the short-term program.

However, in calendar 1990 the U.S. exporting community expressed little interest in the facility. Few requests were received for short-term insurance support. Furthermore, we did not receive clearances from the Central Bank of Iraq for coverage. Finally, as I mentioned earlier, the Bank went off-cover in August 1990 after the President issued Executive Orders in the wake of Iraq's invasion of Kuwait.

Finally, I will address your question of the role I played in approving Iraqi participation in the Bank's programs. As I was not the Chairman at the time the Bank opened in Iraq, my role was initially somewhat limited. Upon assuming the Chairmanship, I made sure that I kept fully apprised of Iraq's economic situation and monitored all changes. The Board directed extensive staff reviews in light of the continuing changes in Iraq and its belligerent behavior. In the final analysis, I believe that we acted in a prudent manner when, despite pressure from the U.S. business

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community and Iraq, the Board refused to open for medium and long-term cover.

I would be happy to answer any question you may have.

Statement of
RITA M. RODRIGUEZ
DIRECTOR, EXPORT-IMPORT BANK OF THE UNITED STATES

before the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

April 17, 1991

Eximbank Programs: Iraq and BNL Participation

Chairman Gonzalez and members of the committee:

My name is Rita M. Rodriguez and I have been a member of the Board of Directors of the Export-Import Bank since October, 1982. I am here today to appear before the committee to discuss my role in formulating and approving Eximbank's policy in specific countries and the participation of specific financial institutions in Eximbank's programs.

Responsibilities as a Member of the Board of Directors of Eximbank

As a member of the Board of Directors of Eximbank I participate in the policy decision as to the programs and the conditions under which Eximbank credit is to be made available in a country. In this decision, the Board establishes the maximum repayment terms that would be acceptable for that country -- short-term, medium-term or long-term. This decision, in turn, determines what programs will be used in the given country -- the insurance program being the only Eximbank program available for short-term financing. In situations where there are questions about the creditworthiness of the country, the Board may decide to impose a limit on the exposure that it would be willing to accept in that country in the aggregate, and in each transaction. Finally, since 1987 the Board also decides on the country-risk fee schedule to be applied in the country.

The Board meetings to decide on changes in country policy are usually preceded by an in-depth, inter-agency review of the country's capability to repay its debts in the future. During this

review the Eximbank economist presents his or her analysis and the other agencies comment on it. The decision to offer the short-term insurance program in Iraq with a maximum in outstanding balances of \$200 million reached in July 1987 was reached following this procedure.

Once the Board decides on a policy for a given country, specific cases in that country are brought to the Board for decision in the following instances:

(1) Cases which fall within the parameters of the given country policy, but which involve credit amounts higher than the amounts delegated by the Board for decision by FCIA, Eximbank staff, or Eximbank's Loan Committee. The bank letter-of-credit insurance policy used by Banco Nazionale del Lavoro (BNL) in Atlanta was approved by the Board because its size exceeded the amount delegated by the Board for decision by the staff on this type of policy.

(2) Cases which fall within the parameters of the given country policy, but which staff considers to be outside Eximbank's policy in other areas -- areas other than country policy -- such as Eximbank's policy against financing of defense goods.

(3) Cases which fall outside the parameters of the given country policy, but which the applicant insists be brought for a decision by the Board. In Iraq the typical requests in this category involved the financing of exports associated with projects which require, and typically would be offered, longer terms than the 360-days allowed under Exim policy for Iraq.

Other Responsibilities Assigned to Me by Eximbank's Presidents

Among the other responsibilities assigned to me, all Eximbank Presidents under whom I have served have asked me to work closely with the country-analysis staff. This work has involved primarily the establishment of methodologies and procedures which would preserve and enhance the independence and objectivity of the economists responsible for generating country-risk analyses and which would facilitate the comparison of countries' risks and associated policies. In 1986, these

efforts lead to the establishment of a separate Country Risk Analysis Division at Eximbank to which all the country economists formerly under the regional divisions were assigned. In 1987, an informal group with whom I had worked in developing exposure management concepts for Eximbank was formally constituted by Chairman Bohn as the Exposure Management Committee, which I have chaired almost since its inception.

The Exposure Management Committee is responsible for reviewing country policy and portfolio policy for the Bank as a whole and to make recommendations to the Board as to country and portfolio policies on a semi-annual basis. However, the Exposure Management Committee does not review the risk analysis performed for specific countries before it is presented to the Board.

Role of Country-Risk Analysis in Eximbank's Policy for Iraq

Clearly, the assumptions and analysis made by Eximbank's economists were decisive in determining the narrowness of our policy in Iraq. In spite of the enormous demand for export financing which U.S. exporters alleged to exist in Iraq; and in spite of the presence of heavy competition from other export credit agencies which offered not only their short-term program but also their long-term programs to finance their exports to Iraq, Eximbank economists' analysis prevailed. That analysis indicated lack of a "reasonable assurance of repayment" in credit transactions with Iraq on terms other than short ones, and it shaped the Board's decision to offer only a very limited program in Iraq.

Because of the recurrent petitions from exporters, which all the members of the Board were hearing since the United States re-established diplomatic relationships with Iraq in 1984, inquiries into the staff's analysis of Iraq's creditworthiness were common. Similarly, staff from other agencies often provided evidence which in their opinion supported a more optimistic outlook of Iraq's creditworthiness than the analysis of Eximbank's economists suggested.

The BNL-Atlanta Office Scandal

Eximbank's Board was not asked to approve any transaction with BNL-Atlanta after the scandal of that institution began to be known. The last renewal of the BNL-Atlanta insurance policy was approved by the Board on October 1988. When the BNL-Atlanta case began to be discussed in the papers I asked in our senior staff meeting whether anybody was looking into our relationship with BNL. In successive meetings I was informed that the review did not show any evidence of impropriety in our relationship and that the last transaction with that institution had taken place some months earlier.

STATEMENT OF
ROBERT L. CHARAMELLA
VICE PRESIDENT
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 17, 1991

Mr. Chairman, Members of the Committee:

Once again, I welcome the opportunity to be here today to discuss Banca Nazionale del Lavoro (BNL) and Iraqi participation in Export-Import Bank programs. We at the Bank have carefully reviewed how both parties used Eximbank programs and I am pleased to share our findings with the Committee.

To review my previous testimony, Eximbank was open in Iraq for short-term insurance cover only [up to 360 days] from July, 1987 to August 2, 1990. Based upon our country analysis, Eximbank set a relatively modest aggregate principal exposure limit of \$200 million. We were "off cover" in Iraq for the preceding sixteen months due to payment delinquencies which were paid in full prior

to our re-opening that July. Eximbank's willingness to continue its short term cover in Iraq was based on Iraq's willingness and ability to service its existing debt to the U.S. Government and Eximbank in a satisfactory manner.

A clearance mechanism was set up with the Government of Iraq whereby only those transactions cleared by the Iraqi Government by telex notification to Eximbank were eligible for coverage. Payment had to be in the form of an irrevocable letter of credit opened or guaranteed by the Central Bank of Iraq. Where the Central Bank was the guarantor, either Rafidain Bank or Al-Rasheed Bank could be the opening bank of the letter of credit. Deferred payment terms were permissible up to a maximum of 360 days.

Now I will provide the Committee with an overview of the Eximbank program used by Iraq. The program utilized was the export credit insurance program. This program provides insurance policies to eligible exporters and banks who seek coverage against commercial and political events of default. Specifically, the policy used by the commercial banking community supporting U.S. exports to Iraq was the Bank Letter of Credit insurance policy.

In general, this policy indemnifies the U.S. financial institution against the risk of non-payment on the part of the

Iraqi opening bank of a letter of credit issued in payment for Iraq's purchase of eligible U.S. goods.

The U.S. bank issues the U.S. supplier an irrevocable commitment to pay under the Iraqi letter of credit (silent confirmation) upon presentation of documents as stipulated in the letter of credit. After the credit was negotiated, the U.S. bank would also in this case collect the payment from the Iraqi opening bank at maturity. They purchased export credit insurance to protect against losses under the letter of credit mechanism.

All commercial banks doing business in the United States and financing U.S. exports are eligible to use Eximbank's credit insurance program. We review every bank's application to ascertain its operational history, financial strength, ownership, international experience and other factors to determine program eligibility. In most situations, Eximbank initiates direct contact with the financial institution during its review process. At present, over 130 financial institutions have export credit insurance policies.

Turning specifically to Banca Nazionale del Lavoro, Mr. Chairman, I will explain BNL participation in Export Import Bank programs. After review of BNL's financial standing, its

status as an Italian government owned institution and its operations abroad and in the U.S., Eximbank programs were made available to the BNL offices in Rome, New York and Atlanta. An insurance policy was issued in June, 1987 to BNL-Atlanta.

The U.S. branches of BNL have never used the Eximbank medium term and long term programs.

BNL-New York has used the Eximbank Working Capital Guarantee Program for ten transactions. The latest transaction was approved within the last few days. None of the export shipments resulting from a working capital guarantee went to Iraq. The aggregate value of these transactions is \$5.7 million.

BNL-Atlanta received a Bank Letter of Credit policy which was used to insure Iraqi letters of credit. This policy expired on December 31, 1989. BNL was the insured for 51 transactions which aggregated \$47 million - \$43.5 million has been repaid satisfactorily. This last request authorized for coverage in favor of BNL-Atlanta was June, 1989. There is currently \$3.5 million outstanding to BNL which is part of the \$50.8 million of present exposure to Iraq. Claims have been submitted for this amount.

During the period when we were open in Iraq, Eximbank supported 187 U.S. export transactions totaling \$267 million. Iraq's payment history was checkered with intermittent arrears. Insurance was not provided during the period in which arrears existed. We were very conscious of other export credit agencies' payment problems in the market and therefore kept abreast weekly of our payment history. I have provided the committee with a coverage chronology which depicts Eximbank's coverage position until official closure in August, 1990.

This concludes my remarks, Mr. Chairman. I would be happy to answer any questions the Committee may have.

RLC#3 (A:BNL)

STATEMENT OF
ARTHUR PILZER
VICE PRESIDENT - AFRICA AND MIDDLE EAST DIVISION
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND CURRENT AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 17, 1991

Mr. Chairman, Members of the Committee

As the Vice President of the Africa and Middle East Division it is my responsibility to implement Eximbank's medium and long term financing programs in all the countries in this geographic region where we are open for business. Short term financing requests are handled by the FCIA Division of Eximbank. Mr. Charamella will be testifying on behalf of the FCIA division.

Iraq is one of the countries within my jurisdiction. My staff and I respond to financing requests from U.S. exporters, international banks and from foreign borrowers who seek financing in order to purchase U.S. goods and services. Financing requests are reviewed by my staff for creditworthiness and are also reviewed by Eximbank's Country Risk Analysis Division, the Engineering Division and our Legal Division before they are presented to our Board of Directors or Loan Committee for a decision.

In addition to reviewing financing requests, the Africa and Middle East Division, in conjunction with other divisions of the Bank, recommend or concur in policy changes to the Board of

Directors as they relate to specific countries within our jurisdiction.

On July 9, 1987, Eximbank's Board of Directors authorized the resumption of short term FCIA insurance cover only for Iraq. This new cover policy for Iraq was limited to \$200 million. The Board of Directors specifically did not authorize medium or long term credits or guarantees for Iraq. As a result of the Board's action, the FCIA Insurance Division was charged with implementing this new short term facility.

My staff and I continued to monitor financing requests by the U.S. export community and the Iraqis but no applications for financing were accepted or presented to the Board of Directors because of our short term only cover policy. The Board of Directors were informed from time to time of the financing inquiries being made to Eximbank.

On August 7, 1990 Exim's Board decided to go "off cover" in Iraq as the result of Iraq's invasion of Kuwait. Between July 9th, 1987 and August 7th, 1990, Eximbank did not change its basic policy of providing only short term insurance for exports to Iraq. Medium and long term financing was never provided during this period.

That concludes my statement, Mr. Chairman. I would be happy to answer any questions that you may have. Thank you.

**Remarks of
John W. Wisniewski, Vice President-Engineering
Export-Import Bank of the United States
before the
Committee on Banking, Finance and Urban Affairs
United States House of Representatives
April 17, 1991**

FUNCTIONS AND ROLE OF EXIMBANK'S ENGINEERING DIVISION

The Engineering Division has the primary responsibility for ascertaining, analyzing and advising the Board of Directors, senior management and staff concerning the technical risks and technical feasibility of proposed transactions presented to the Bank for financing assistance. In addition, the engineers provide general technical information, explanations and interpretations to non-technical personnel of the Bank. The Division has primary responsibility for the administration and application of the Bank's military sales and foreign content policies. It also is responsible for administering the Bank's Engineering Multiplier and Operation and Maintenance Programs. In accordance with the Bank's Environmental Procedures published in the Federal Register September 4, 1979, the Engineering Division is responsible for determining the environmental effects of the project in all long-term transactions.

The Division is managed by a Vice President and Deputy Vice President who are also engineers. Currently, the Division has five staff engineers with cumulative professional experience of over 130 years with 50 of the cumulative years being at the Bank. The engineers serve as industry experts commensurate with their engineering discipline (electrical, chemical/nuclear, mechanical, mining and petroleum) and work experience. All long-term transactions processed by the Bank require the assignment of an engineer. Medium-term, working capital and insurance transactions are assigned engineers at the request of a loan officer. In Fiscal Year 1990 the Division processed 430 transactions.

The Engineering Division provides expert consultative advisory services to the Board, management and staff and represents the Bank on engineering issues with other Government agencies, private companies and foreign nationals. In addition to responsibilities associated with the processing of applications, the Division provides consultative services to other functional areas of the Bank including interagency industry/policy studies. The Vice President-Engineering is the Bank's designated energy officer under Section 2(b)(1)(c) of the Export-Import Bank Act of 1945, as amended, and serves as the Bank's representative on the interagency Committee On Renewable Energy, Commerce and Trade (CORECT) established by P.L. 96-370.

The engineers' written reports to the Board are considered technically authoritative and require little or no substantive technical changes when reviewed by management. The engineer is expected to independently handle assigned cases and other responsibilities with only administrative and minimal technical guidance on broad policy issues. Attached is a list enumerating the "Basic Duties and Responsibilities of Engineers".

IRAQ - Chemical Transactions

Prior to calendar year 1991, the Division's chemical engineer reviewed each case of chemicals exports to Iraq which were brought to his attention by the loan officers.

In each case, he determined that the chemical was not a weapon, nor a precursor to a weapon. He further checked the specific substance in the standard chemical industry reference, "Dangerous Properties of Industrial Materials - Sax", to determine if it could be readily modified to make a chemical weapon.

The chemical engineer currently refers to the list of 50 precursors in the new rules "Expansion and Imposition of Foreign Controls on Chemical Weapon Precursors," published by the Department of Commerce on December 20, 1989 and March 13, 1991. The chemical engineer examines each transaction brought to his attention for export of chemical process plants or equipment and includes his findings in an engineering evaluation of the transaction.

Attachment

BASIC DUTIES AND RESPONSIBILITIES OF ENGINEERS

- Assess the technical feasibility of projects, evaluating:
 - Capital cost estimates;
 - Construction schedule;
 - Project site selection criteria (raw materials supply, utilities, and transportation);
 - Capabilities of the principals to construct and operate project;
 - Training program, availability of skilled work force, and
 - Estimates of proven mineral reserves (in appropriate cases).
- * - Provide a Technical Risk Assessment rating for appropriate projects.
- * - Identify and determine the strength of foreign technical competition faced by U.S. suppliers for each long-term transaction.
- * - Compute the percentage of U.S. goods and services supplied by small businesses.
- Examine the project's environmental effects under Eximbank's environmental procedures.
- Incorporate the foregoing in a concise engineering evaluation memorandum for inclusion in Memorandum to the Board.
- Support other members of International Lending application teams -loan officer, lawyer, economist - with specialized insights into industry, market, and country conditions.
- Serve as technical consultants to Eximbank officials and Board of Directors.
- Assist in making Bank authorized transactions operative by:
 - Advising lawyer on technical aspects of loan agreement;
 - Reviewing acquisition list for technical eligibility of items of U.S. procurement;
 - Providing technical advice in respect to disbursement requests and terms and conditions of progress payments eligible for financing.
- Monitor active loans by reviewing project progress and operating reports, and conduct on-site engineering reviews when appropriate.
- Advise General Counsel and contract officers with regard to technical problems and considerations in project overruns and project debt rescheduling.
- * - Contribute to work of Policy and Planning, Information Management, and Ad Hoc committees with specialized knowledge of technologies, markets and industries.
- Provide technical backup to traveling Eximbank teams and explain engineering aspects of loan applications to potential foreign applicants.

QUESTIONS SUBMITTED BY CHAIRMAN HENRY B. GONZALEZ TO
STEPHEN D. PROCTOR WITH RESPONSES THERETO

**Stephen D. Proctor, Vice President, Claims and Recoveries
Export-Import Bank of the United States
before the
Committee on Banking, Finance and Urban Affairs
United States House of Representatives
April 17, 1991**

A. Functions of the Claims and Recoveries Division

The Claims and Recoveries Division has responsibility for claims filed under Eximbank's insurance and guarantee programs, and for problem loans more than 90 days in arrears. It handles the collection of transactions on which claims have been paid and undertakes workouts, restructurings and recovery of problem loans. The Division also has responsibility for Paris Club activities and serves as a technical advisor to the U.S. delegation to the Paris Club.

The Claims and Recoveries Division is one of the nine divisions in Eximbank's Export Finance Group and reports to the Executive Vice President.

B. What is the dollar amount of claims paid by Eximbank related to Iraq?

To date Eximbank has approved for payment two Iraqi claims, plus a portion of a third. The total amount authorized is \$2,829,432.00. In addition, Eximbank has denied a portion of a fourth claim for reason of non-payment of premium. The amount denied was \$1,467,060.00. Further, there are claims presently under review at Eximbank's agency, the Foreign Credit Insurance Association, aggregating \$46,513,583.03, which will be transmitted to Eximbank for final disposition. In the case of two of the pending claims, Banca Nazionale Del Lavoro (BNL) is the insured. The BNL claims aggregate \$3,553,073.67. Eximbank Iraqi claims experience is summarized in the attached exhibit.

IRAQI CLAIMS (ALL)

CLAIM NO.	INSURED	IMPORTER	PRODUCTS	AMOUNT	APPROVED	DENIED	PENDING
BLP-20992	BANK OF NY	NEW TYRE PROJECT	RUBBER MIXING & TYRE MACHINERY	\$14,049,834.00	\$1,922,000.00		\$12,127,834.
BPL-21009	BANCA NAZIONALE DEL LAVORO (BNL)	STATE COMPANY FOR DRUGS, STATE ENTERPRISE FOR PULP & PAPER	AUTO PARTS & VACUUM PUMP	\$839,222.37			\$839,222.
BLP-21012	BANK OF NY	1. STATE ESTABLISHMENT FOR WATER & SEWAGE 2. STATE EST. FOR CONSTRUCTION 3. AGRICULTURAL SUPPLIES	TYRE MACHINERY, PIPES & PARTS	\$32,199,715.36		\$1,467,060.00	\$30,832,655.
BLP-21015	GULF INT'L BANK	NEW TYRE PROJECT	TYRE MACHINERY	\$586,807.00	\$586,807.00		
STX-21032	ELC LILLY & CO.*	STATE COMPANY FOR DRUGS	TEST-TAPE FOR DIANETIC THERAPY	\$320,625.00	\$320,625.00		
BLP-21039	BANCA NAZIONALE DEL LAVORO	SADDAM GENERAL ESTABLISHMENT	MILLING MACHINERY	\$2,713,851.30			\$2,713,851.
		TOTALS		\$50,810,075.03	\$2,829,432.00	\$1,467,060.00	\$46,513,563.

* BNL IS ADVISING BANK FOR LETTER OF CREDIT

IRAQI CLAIMS (BNL)

CLAIM NO.	INSURED	IMPORTER	PRODUCTS	AMOUNT	APPROVED	DENIED	PENDING
BPL-21009	BANCA NAZIONALE DEL LAVORO (BNL)	STATE COMPANY FOR DRUGS, STATE ENTERPRISE FOR PULP & PAPER	AUTO PARTS & VACUUM PUMP	\$839,222.37			\$839,222.
BLP-21039	BANCA NAZIONALE DEL LAVORO	SADDAM GENERAL ESTABLISHMENT	MILLING MACHINERY	\$2,713,851.30			\$2,713,851.
		TOTALS		\$3,553,073.67			\$3,553,073.

Iraq Utilization of Export-Import Bank Programs

Iraq used BNL to finance many of its imports transactions using Eximbank insurance programs. Eximbank finances U.S. exports by providing guarantees, insurance and loan support. The Eximbank programs utilized by Iraq include the Short-term Single Buyer Policy which was utilized mainly by American exporters, and the Bank Letter of Credit insurance policy which was utilized by banks like BNL. Both programs indemnify the insured party - a U.S. exporter or a bank - against the risk of Iraqi non-payment.

From July, 1987 to August 2, 1990, the Export-Import Bank (Eximbank) provided Iraq with \$200 million of short-term insurance coverage - insuring against Iraqi non-payment for up to 360 days. In testimony before the House Banking Committee, Eximbank officials stated, "... we cautiously opened in Iraq only for short-term insurance despite tremendous pressure from the American business community as well as competition from foreign export credit agencies ..." Eximbank also received tremendous pressure from the Government of Iraq which was continually requesting that Eximbank expand its coverage to include medium and long-term insurance coverage.

Eximbank was cautious about its exposure to Iraq because of a history of Iraqi payment delinquencies. In fact, for 18 months prior to opening with Iraq in 1987, Eximbank had suspended Iraq

because of payment delinquencies. As recent as July 20, 1990, Eximbank had to pay an exporter \$53,000 because of Iraqi refusal to make good on a contract insured by Eximbank.

In total, Eximbank has insured hundreds of millions of dollars of exports to Iraq. The current Eximbank exposure to Iraq is \$73.5 million, of which \$55 million is for amounts outstanding and \$18.5 million represents potential exposure. The potential exposure of \$18.5 million relates to shipments which did not take place prior to August 2, 1990. Since these exports were banned, Eximbank should be able to take these guarantees off its books.

Under the Eximbank Letter of Credit program with Iraq, BNL was insured for 51 export transactions with a dollar value of \$47 million. Of this amount \$43.8 million has been repaid by Iraq. Eximbank currently owes BNL the remaining \$3.2 million because Iraq defaulted on several letters of credit that were funded by BNL and insured by Eximbank.

CHRONOLOGY OF U.S./EIB RELATIONSHIP WITH IRAQ

1967- Iraq broke diplomatic relations with U.S. at the time of the Arab-Israeli war.

Sept. 1980- Iraq invaded southern and western Iran.

November 26, 1984- Full diplomatic relations were restored.

1985- Exim opened for short-term business only.

August 15, 1985- Exim Board authorized \$50mm medium term facility for Iraq, however difficulties encountered in discussions with Iraqi govt officials re operating agreement. Iraqis thought the amount was too small, among other things. Subsequently, negotiations were suspended because of arrears which appeared from short-term insurance.

At highest point, the arrears amounted to \$5mm. There were some claims paid which were recovered in full. Total authorizations amounted to \$47.4mm, \$39.2mm disbursed and repaid. Coverage was principally for Rafidain ILC's.

Mellon Bank was principal insured. Some others were UBAF, Chemical, Manuf. Hanover and Republic Bank. NOTE: BNL DID NOT PARTICIPATE DURING THIS PERIOD.

March 1986- EXIM WENT OFF COVER BECAUSE OF ARREARS.

Late 1986- Iraqi govt made some paymts.

Feb. 18, 1987- Became current.

March 17, 1987- Fell into arrears once again. Highest point \$1.9mm.

April 21, 1987- Became current.

April 24, 1987- Interagency review with reps from State, CIA, Treas., USDA/CCC, Commerce and NSC.

May 15, 1987- EXIM'S BOARD APPROVED RE-OPENING IN IRAQ FOR SHORT-TERM ONLY UP TO \$200MM EXPOSURE WITH CENTRAL BANK AS OBLIGOR ONLY.

Late May 1987 ??- Cover suspended because of Iraqi missile attack on the USS Stark. Negotiations with Iraq re short-term facility never began.

July 9, 1987- EXIMBANK RE-OPENED FOR SHORT-TERM BUSINESS UP TO \$200MM.

October 15, 1987- Memo of Understanding and Operating Agreement for ST Facility signed by Exim and Iraqi officials.

Sept 1989- Coverage suspended because of arrears.

December 1989- Congress passed legislative prohibition re Exim program for Iraq.

February 1990- President waives legislative prohibition however, Exim remains off cover because of existing arrears.

March 8, 1990- Iraq becomes current and Exim lifts suspension of ST program.

August 2, 1990- ST program suspended per President's Executive Order.

August 9, 1990- Exim's Board meets and formally goes off cover.

**EXPORT-IMPORT BANK TRANSACTIONS FOR
EXPORTS TO IRAQ**

The Export-Import Bank financed 187 transactions for exports to Iraq totalling \$267 million. The largest areas of purchases were for tire production, tires and other rubber products, and water/sewer pipes.

The attached list shows the name of the insured company (usually a bank), the name of the supplier/exporter, what entity in Iraq was importing the product, what the products were, the amount, and the date the transaction was authorized.

ALL transactions 131 cleared 100% 7/20/90
one claim paid - A.O. Smith insured \$53,300

TRNAME	SUPNAME	CITY	STATE	IMPORTNAME	PRODUCTS	ARTC	CLEARED DATE
A.O. SMITH	ELI LILLY & CO.	INDIANAPOLIS	IN	AL. HILAL INDUST CO.	FRAC HP MOTORS	374	1000.00 07/14/88
CATERPILLAR TRACTOR	GEORGIA	GA	STATE MACH IMPORT CO	SCRAPERS	294	213.00 07/15/87	
TOP VALUE AUTO ETP	MOUNT VERNON	MO	GENL AUTO TRADING CO	AUTO PARTS	467	5469.00 07/07/88	
MOOREL ACORN	ACORN	CO	STATE ENT RUBBER	IND TUBE PRESSES	423	367.00 07/14/87	
IND COOP	COLUMBUS	OH	STATE ENT RUBBER	IND TIRE PRODUCTION EQUIPMT	658	9900.00 07/14/87	
INDUST SUP & CONSULT	PARANUS	TX	STATE ENT RUBBER	IND RUBBER MANUF EQUIPMT, PARTS	651	12376.00 03/01/88	
VERMEER MANUF CO.	PELLA	PA	STATE MACH TRADING	TRACTORS	574	540.00 07/07/88	
JOHN DEERE AND CO.	LOCKNEED GEORGIA CO	GA	STATE MACH TRADING	TRACTORS & SPARES	403	5122.00 07/07/88	
1ST AMERICAN WC-GA.	NICKLETTA	GA	IRAOI AIRWAYS	AIRCRAFT PARTS	148	260.00 07/07/88	
CHERRY BARRELL	NICKLETTA	GA	STATE ENT VEG OILS	PROCESSING LINES & PARTS	51	800.00 07/14/88	
LUBRIZOL CORP.	NICKLETTA	GA	STATE ENT OIL REFIN	132 TONS OF L2 5369	39	000.00 07/14/88	
LUBRIZOL CORP.	NICKLETTA	GA	STATE ENT OIL REFIN	400 TONS OF L2 4002	43	000.00 07/14/88	
LUBRIZOL CORP.	NICKLETTA	GA	STATE ENT OIL REFIN	LUBRICANTS FUEL ADDITIVE	154	8196.00 07/02/88	
LUBRIZOL CORP.	NICKLETTA	GA	STATE ENT OIL REFIN	12 4099- DETERGENT INHIB	64	1597.00 07/14/88	
INEX ELEC CO.	ST. LOUIS	MO	MIN OF ELECTRICITY	33 KV CABLE BOXES & ACCESS	283	750.00 07/14/88	
THERMO KING	BERVALE GALLWAY, IRELAND	IR	STATE ENT AUTO IND	M/S A/C PARTS	294	59.00 07/14/88	
MT. VERNON TRADE	BRONX	NY	NISSAN STATE SUGAR	VEED KILLER	96	70.00 07/14/88	
TRYING TRUST CO.	WITTEMAN HASSSELBERG	PA	SPECIAL PROJECTS	CO 2 PLANTS	87	795.00 07/14/88	
TRYING TRUST COMPANY	AME INTERNATIONAL	PA	AL AUTO TRADING COMPANY	TRANSMISSION BRIDGE	904	218.00 07/01/88	
UBAF ARAB AMER BANK	NORTH BRANSDICK	PA	IL EXPLORATION CO.	LABORATORY EQUIPMENT	13	029.00 07/01/88	
GULF INTL BK	PHOENIX	GA	GEN'L ESTAB. MOOLEN	"FERTILE MACHINERY PARTS	974	5.00 07/01/88	
COBBLE TUFFING MACHINE	DALTON	GA	STATE ENT RUBBER	IND NYLON TIRE CORD	24	8520.00 02/11/88	
TRYING TRUST CO.	PARANUS	TX	IRAOI TRADING CO.	A/C COMPRESSORS	17	81226.00 02/11/88	
TRYING TRUST CO.	STONET	TX	IRAOI TRADING CO.	A/C UNITS & SPARES	15	3094.00 02/11/88	
ELI LILLY & CO.	INDIANAPOLIS	IN	STATE ORG. MECH & SUP	TREFLAM (HERBICIDE)	55	690.00 02/11/88	
BANKAMER INTL-NY	INDIANAPOLIS	IN	MODERN PAINT INDUST	CHEMICAL RAW MAT, SOLVENTS	125	4955.00 02/11/88	
BANKAMER INTL-NY	ELK GROVE VILLAGE	IL	WAT'L FOODS	IND CO COOLING MACHINES	12	1235.00 02/19/88	
BIL-ATLANTA	RICHMOND	VA	ST ENT. IRON/STEEL	OUT-GAS CUTTING TORCHES	23	000.00 02/23/88	
BIL-ATLANTA	PHILADELPHIA	PA	PROJECT 795	REVERSE OSMOSIS SYSTEM	77	8121.00 02/23/88	
BORG WARNER CORP.-YORK	YORK DIV.-BORG WARN	NY	ST ORG. MACH. AG. SUPP	HERBICIDE	98	1250.00 02/19/88	
BANKAMER INTL-NY	AL MADANO ENT	TX	IRAOI TRADING CO.	A/C & SPARE PARTS	25	1271.00 03/01/88	
STRAIGHT ENGINEERING CO.	DES MOINES	IA	IRAOI INDUSTRIES CO.	ALUMINUM SHEETS	18	00991.00 03/11/88	
JOHN DEERE & CO.	WOODBRIDGE	MO	IRAOI GRATH BOARD	GRAIN HANDLING PARTS	31	1420.00 02/25/88	
BIL-ATLANTA	WOODBRIDGE	MO	ST MACH TRADING CO.	200 TRACTORS & PARTS	807	0540.00 02/25/88	
PETROLITE INTL	ST. LOUIS	MO	IRAOI GRATH BOARD	SPARE PARTS FOR ELEC EQUIP	19	5616.00 02/25/88	
MORGAN INDUSTRIES, INC.	LONG BEACH	CA	SOUTHERN PETRO ORG	DEWILSTIFFER (SIC)	20	202000.00 02/25/88	
TRYING TRUST CO.	COLUMBUS	OH	WATL CHEM & PLASTICS	PRESS EQUIPMENT & ACCESS	20	500.00 03/01/88	
TRYING TRUST CO.	CLEVELAND	OH	MIN REAVY INDUSTRIES	TIRE CURING PRESSES	64	00000.00 03/24/88	
TRADEWAY INTL CORP.	NEW YORK	NY	IRAOI CO.-CARBON MANUF	RUBBER MIXING EQUIPMENT	86	00000.00 03/24/88	
BHIL INTL	NEW YORK	NY	IRAOI TRADING CO.	CARTON LINING PAPER	112	20000.00 03/11/88	
LUBRIZOL CORP.	NICKLETTA	GA	MIN CIL RETRIEVERS	100 TONS L2 5792	52	62623.00 03/11/88	
WAB BANKER TRUST	DALLAS	TX	ST MACH TRADING ENT	SPARE PARTS	38	20235.00 03/11/88	
BANKAMER INTL-NY	PELLA	PA	ST MACH TRADING CO.	(12) T-8000 TRENCERS	14	846351.00 03/24/88	
U.O.P. INC.	DES PLAINES	IL	EST OIL & GAS PROCES	CHEMICAL CATALYST -R-32	21	1448271.00 03/24/88	
PAR PHARMACEUTICAL	SPRING VALLEY	NY	ST CO DRUGS & MED	DRUGS	56	100.00 03/30/88	
ELI LILLY & CO.	HOUSTON	TX	IRAOI TRADING CO.	REFRIG UNIT SPARES	44	24024.00 04/08/88	
BANKAMER INTL-NY	HOUSTON	TX	IRAOI TRADING CO.	REFRIG UNIT SPARES	162	404.00 04/08/88	

INL-ATLANTA	PANSONE COMPANY	MOUSTON	TX	OIL EQUIPMENT CO.	ANC WELDING EQUIPMENT	283193.00	04/08/88
ALBEMAR BK	SOLVOCHEN-HOLLAND	WASHINGTON	TX	NATL. CHEM & PLASTICS	500 TO 80/20 (SIC)	1892500.00	04/08/88
BAKAMER INTL-NY	TELMAR INTERNATIONAL	WASHVILLE	TX	ROBERT PAINT INDUST	CHEM RAW MATERIALS SOLUT	59400.00	04/12/88
1 INL-ATLANTA	HARBENWOOD LTD.	BALTIMORE	MA	BAYCON STITE ESTAB	COOLING PLANT PARTS	444884.00	04/12/88
IONICS INC.	IONICS INC.	WATERLOO	MA	SAND ZER. ESTAB	WATER TREATMENT EQUIPMT	1370250.00	04/12/88
2ND IMPROVER TRUST	THE RND KING CORP.	WYMERPOLES	MA	GENL. MFG. TRADING	AUTO PARTS	114703.00	04/12/88
ALBEMAR BANK	SOLVOCHEN-HOLLAND	TORRANCE	CA	ST ENT. RUBBER INDUST	500 TONS BAR COMPOUND	1050000.00	04/28/88
3 BANKAMERICA INTL	ORCA CORPORATION	DERBY	CA	IRMAI TRADING CO.	MAGNETIC COMPUTER TAPE	465580.00	04/28/88
4 IRVING TRUST	THE ROKO COMPANY	CHARLOTTE	NC	GENL. DO GRAIN PROCES	COLD STORAGE UNITS	418993.00	04/28/88
5 INL-ATLANTA	TRADING & INV CORP	KENOSHA	WI	AL. H. AL. IND ESTAB	AIR COOLER PARTS	352540.00	05/11/88
6 INL-ATLANTA	SNAP-ON TOOLS	VIENNA	VA	LIGHT INDUSTRIES CO.	SPARE PARTS	217090.00	05/11/88
7 INL-ATLANTA	RO & D INTL INC.	STONEY	VA	SADAM GENL ESTABMT	MACHINE TOOLS & TECH SVCS	3805938.00	05/11/88
8 INL-ATLANTA	COF INTL INC.	NEW YORK	NY	IRMAI TRADING CO.	A/C COMPRESSORS	1825905.00	05/11/88
9 INL-ATLANTA	LOREL CHEMICAL CORP.	NEW YORK	NY	'OIL EQUIPMENT CO.	(12) WELDING MACHINES	16584.00	05/11/88
10 INL-ATLANTA	PANSONE COMPANY	MOUSTON	TX	ROBERT PAINT INDUST.	CHEM RAW MAT & SOLVENTS	806423.00	05/17/88
11 INL-ATLANTA	TELMAR INTL INC.	WASHVILLE	TX	IRMAI TRADING CO.	A/C ACCESSORIES	145271.00	05/17/88
12 INL-ATLANTA	YORK INTL CORP.	YORK	PA	ST EST COTTON TEXT	WEAVING LOOM PARTS	239705.00	05/26/88
13 INL-ATLANTA	DRAPER CORP.	GREENSBORO	NC	ST ESTABLISH COTTON	SPARE PARTS FOR LOOMS	20108.00	05/26/88
14 INL-ATLANTA	WEST POINT	NEW YORK	NY	ST CO. DRUGS MED AP	MEDICATED MILK	169144.00	05/25/88
15 INL-ATLANTA	BRISTOL-MYERS	DETROIT	MI	ST CO. DRUGS MED AP	PHARMACEUTICALS	297926.00	05/25/88
16 INL-ATLANTA	HUMBOLDT LTD.	DETROIT	MI	ST CO. DRUGS MED AP	PHARMACEUTICALS	237801.00	06/07/88
17 INL-ATLANTA	MOBAY CROP DYES	ROCK HILL	SC	ST CO. DRUGS MED AP	PHARMACEUTICALS	348750.00	06/07/88
18 INL-ATLANTA	UPJOHN WORLDWIDE	CALAMAZOO	MI	ST CO. DRUGS MED AP	PHARMACEUTICALS	328650.00	06/07/88
19 INL-ATLANTA	BRISTOL MYERS INTL	ELI LILLY	TX	ST CO. DRUGS MED AP	PHARMACEUTICALS	1528300.00	06/14/88
20 INL-ATLANTA	SUPERIOR AIR PRODUCT TYLER	ELDER PHARMACEUTICAL COSTA MESA	CA	ST CO. DRUGS MED AP	PHARMACEUTICALS	433194.00	06/14/88
21 INL-ATLANTA	ELDER PHARMACEUTICAL COSTA MESA	CHOC CHLORINATOR INC JENSEN BEACH	CA	ST CO. DRUGS MED AP	PHARMACEUTICALS	387764.00	06/14/88
22 INL-ATLANTA	VIDEOJET SYSTEM INTL ELK GROVE VILLAGE	ARMON	IL	ST ENT. BEVERAGES	COOLING MACHINE & PARTS	2995.00	06/14/88
23 INL-ATLANTA	HOWELL ARMOR, INC.	DETROIT	MI	ST ENT. BEVERAGES	COOLING MACHINE & PARTS	45447.00	06/14/88
24 INL-ATLANTA	TRANS ATLANTIC INC.	DETROIT	MI	AL-KADISTEN ST ESTAB	STANDARD TOOLS	1796448.00	06/14/88
25 INL-ATLANTA	TRANS ATLANTIC INC.	DETROIT	MI	AL-KADISTEN ST EST	STANDARD TOOLS	322097.00	06/14/88
26 INL-ATLANTA	UNION CALIFORNIA	SAN DIEGO	CA	ST ENT. TOBACCO CIGA	CIGARETTE PAPER & GLUE	1799988.00	06/21/88
27 INL-ATLANTA	BREEZEVILLE INC.	MOOREHEAD	TX	IRMAI TRADING CO.	TIRES & TUBES	5249649.00	06/21/88
28 INL-ATLANTA	TRANS ATLANTIC INC.	DETROIT	MI	AL-KADISTEN ST ESTAB	CARBIDE TOOLS	18300.00	06/23/88
29 INL-ATLANTA	COPELAND INTL INC.	DETROIT	MI	IRMAI TRADING CO.	A/C COMPRESSORS	147120.00	06/23/88
30 INL-ATLANTA	MUNAWATECH LTD.	MOOREHEAD	TX	ST ENT. CONSTRUCTION	SPARE PARTS	48800.00	06/23/88
31 INL-ATLANTA	SOLVOCHEN-HOLLAND	MOOREHEAD	TX	ST ENT. RUBBER INDUST	BAR COMPOUND	1050000.00	06/29/88
32 INL-ATLANTA	BREEZEVILLE INC.	MOOREHEAD	TX	IRMAI TRADING CO.	TIRES & TUBES	645194.00	06/29/88
33 INL-ATLANTA	ORCA CORP.	TORRANCE	CA	IRMAI TRADING CO.	MAGNETIC COMPUTER TAPE	671810.00	06/29/88
34 INL-ATLANTA	PHINDON INTL	DEARBOROUGH	MA	ST ENT. DAIRY PRODUCT (4)	FILLING SEALING MACH	9626602.00	06/29/88
35 INL-ATLANTA	COULD ELECTRONICS	NORTH	MA	DEM. TEMENT ST ENT	CONTROLLER MEDIUM	127942.00	06/29/88
36 INL-ATLANTA	MITSUBISHI INTL	LOS ANGELES	CA	IRMAI TRADING CO.	TIRES	655363.00	06/29/88
37 INL-ATLANTA	AMERICAN TEXTILE	GASTONIA	NC	ST EST. FOR COTTON	POLYESTER YARN	1210000.00	07/15/88
38 INL-ATLANTA	CYAMAMITO INTL SALES	WAYNE	MI	AGRIC SUPPLIES	VET PHARMACEUTICALS	267000.00	07/15/88
39 INL-ATLANTA	MED-TEX INTL	NEW YORK	NY	ST CO. DRUGS MEDICAL C. T.	SCANNER PARTS	448099.00	07/15/88
40 INL-ATLANTA	TRAME EXPORT INC.	LE CROSSE	WI	ST ES. BAYCON INDUST	A/C SPARE PARTS	59059.00	07/15/88
41 INL-ATLANTA	PHILA NATL BK	YORK	PA	IRMAI TRADING CO	A/C PARTS	66981.00	07/15/88
42 INL-ATLANTA	UPJOHN WORLDWIDE	LA CROSSE	WI	AGRIC SUPPLIES	VET PHARMACEUTICALS	1409240.00	07/15/88
43 INL-ATLANTA	CEVA LABS	WAYNE	MI	AGRIC SUPPLIES	VET PHARMACEUTICALS	177550.00	07/15/88

AM - ATLANTA	DOM CHEMICAL EUROPE	NORGEN, SWITZERLAND	AGRIC SUPPLIES	LOREHAM & DURSLEM	1497000.00	07/15/88
IRVY TRUST	ICO	PARANUS	ST ENT RUBBER INDUSTRY USED TIRE MOLDS		21000.00	07/22/88
IRVING TRUST	NOVELL AERON INC.	AKRON	ST ENT RUBBER INDUSTRY ELECTRONIC PARTS & PARTS		752550.00	07/22/88
AM - ATLANTA	AMERICAN EX - IN	SOUTHFIELD	ELECTRONIC INDUSTRY DO ELECTRONIC PARTS & PARTS		2100000.00	07/22/88
YORK INTL	YORK INTL	YORK	IRAGI TRADING CO. A/C ACCESSORIES CHAIRS		144000.00	07/26/88
R/S CARDOES INC.	R/S CARDOES INC.	NEW YORK	IRAGI TRADING CO. A/C SPARE PARTS		21000.00	07/26/88
BARCLAMERICA INTL	BARCLAMERICA INTL	NORTH ANGELES	IRAGI TRADING CO. TIRES		140517.00	07/26/88
IRVY TRUST CO	IRVY TRUST CO	NORTH ANGELES	IRAGI TRADING CO. WATER PUMPS W/ACCESSORIES		30330.00	07/26/88
AMERICAN EX - LTD.	AMERICAN EX - LTD.	SOUTHFIELD	AL KADISHEN ST EST EQUIPMENT		1727314.00	07/29/88
AM - ATLANTA	JPMI REERE CO.	PHILIPAS	AL KADISHEN ST SUGAR ENT SPARE PARTS		94913.00	08/03/88
RACAL VADIC INC.	RACAL VADIC INC.	HOLLIS PLAINS	AL KADISHEN ST SUGAR ENT SPARE PARTS		89679.00	08/03/88
AM - ATLANTA	WARRER LAMBERT CO.	HOLLIS PLAINS	AL KADISHEN ST SUGAR ENT SPARE PARTS		19332.00	08/04/88
IRVING TRUST	VIDEOJET SYSTEMS	ELK GROVE VILLAGE	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		337431.00	08/04/88
IRVY TRUST	ICO	PARANUS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		942800.00	08/04/88
UPJOHN S.A. - BELGIUM	UPJOHN S.A. - BELGIUM	HOLLIS PLAINS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		11815.00	08/09/88
GULF INTL BANK	MCR COMP.	COLUMBUS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		826440.00	08/11/88
IRVING TRUST CO.	IRVING TRUST CO.	PARANUS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		141972.00	08/11/88
IRVING TRUST	VIDEOJET SYSTEMS	ELK GROVE	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		672000.00	08/19/88
ALLCARGOES INC.	ALLCARGOES INC.	NEW YORK	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		551746.00	08/19/88
IRVING TRUST CO	IRVING TRUST CO	CINCINNATI	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		79500.00	08/19/88
AM - ATLANTA	DOM CHEMICAL EUROPE	NORGEN, SWITZERLAND	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		9000000.00	08/19/88
GULF INTL BANK	ICO	PARANUS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		1562868.00	08/19/88
ALGERIE BANK	SOLVOCHEN - HOLLAND	COLUMBUS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		1593580.00	08/19/88
IRVY TRUST	MCR COMP.	CLEVELAND	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		987000.00	08/19/88
IRVY TRUST	SOMERAY	AKRON	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		28000000.00	08/19/88
IRVY TRUST	PENNY VIDEO INC.	AKRON	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		1100000.00	08/19/88
IRVY TRUST	AKRON STE	PARANUS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		1922000.00	08/19/88
CREDITVALIST	CATERPILLAR TRACTOR	WHITE PLAINS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		2580000.00	08/19/88
IRVING TRUST CO.	MCLAUGHLIN CORP.	PARANUS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		220000.00	08/19/88
AMERICAN EX - IN LTD.	AMERICAN EX - IN LTD.	SOUTHFIELD	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		204891.00	08/19/88
AMERICAN EX - IN LTD.	AMERICAN EX - IN LTD.	SOUTHFIELD	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		269583.00	08/19/88
AM - ATLANTA	CAREY AGR INTL	BRAMBOON	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		954400.00	08/19/88
BANK OF NY	ICO	PARANUS	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		330254.00	08/19/88
AM - ATLANTA	WEST POINT FOUNDRY	WEST POINT	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		1195135.00	08/19/88
AM - ATLANTA	SINGER PRODUCTS	GREAT ECK	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		72740.00	08/19/88
ALGERIE BK BED	SOLVOCHEN - HOLLAND	NEW YORK	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		479000.00	08/19/88
R/S ALLCARGOES INC.	R/S ALLCARGOES	NEW YORK	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		33843.00	08/19/88
ALGERIE BK BED	SOLVOCHEN - HOLLAND	NEW YORK	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		60214.00	08/19/88
AM - ATLANTA	DRAPER CORP.	SPARTANBURG	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		126990.00	08/19/88
AM - ATLANTA	AL MADRID	DES PLAINES	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		244480.00	08/19/88
AM - ATLANTA	AL MADRID	WASVILLE	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		77326.00	08/19/88
AM - ATLANTA	WASH INTL CO	NORWALK	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		479000.00	08/19/88
AM - ATLANTA	AL MADRID	WASVILLE	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		67163.00	08/19/88
AM - ATLANTA	ENL INC.	DES PLAINES	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		67494.00	08/19/88
AM - ATLANTA	ENL INC.	DES PLAINES	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		313760.00	08/19/88
AM - ATLANTA	ENL INC.	DES PLAINES	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		48272.00	08/19/88
AM - ATLANTA	ENL INC.	DES PLAINES	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		332820.00	08/19/88
AM - ATLANTA	ENL INC.	DES PLAINES	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		179290.00	08/19/88
IRVING TRUST	ENL INC.	DES PLAINES	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		326670.00	08/19/88
IRVING TRUST	ENL INC.	DES PLAINES	ST ENT RUBBER INDUSTRY COMPRESSOR SPARE PARTS		5000000.00	08/19/88

UOP INC.	DES PLAINES	IL	REFIN NORTHERN AREA	R 32 CATALYST	122630.00 11/01/88
UP JOHN	WALMAZOO	MI	AGRI SUPPLIES CO	10 TONS OF MONTIX	320920.00 11/17/88
BIL-ATLANTA	CAREY AGR	FL	AGRI SUPPLIES CO	NET PHARMACEUTICALS	1235070.00 11/17/88
BIL-ATLANTA	STANMID INTL	LA	AGRI SUPPLIES CO	20 TONS OF AMORFAC	178000.00 11/17/88
BIL-ATLANTA	STOK GAMCO	AL	AGRI SUPPLIES CO	SPARE PARTS	1050234.00 11/29/88
BONY	AMER CAST IRON PIPE	AL	GENL ENT WATERB SEW	DUCTILE IRON PIPE	6940000.00 12/20/88
BIL-ATLANTA	AMER CAST IRON PIPE	AL	AMMATS BAKING	DUCTILE IRON PIPE	6000000.00 12/20/88
UAP ARAB AM BK	AME INTL	AL	GENL AUTO TRADING	BRAKE FLUID	1462660.00 02/09/89
BONY	WARNER LAMBERT	MI	ST CO INHUSE MED APP DRUGS		67239.00 02/09/89
PAIR DAVIS CO.	PARK DAVIS CO.	PI	ST CO INHUSE MED APP DRUGS		21300.00 02/09/89
PAR PHARMACEUTICAL	PAR PHARMACEUTICAL	SC	ST CO INHUSE MED APP DRUGS		567500.00 02/09/89
BIL-ATLANTA	DRAPER CORP	NY	ST CO INHUSE MED APP SPARE PARTS		96213.00 02/09/89
BIL-ATLANTA	TOP VALVE	NY	ST CO INHUSE MED APP SPARE PARTS		700084.00 02/09/89
GULF INTL BANK	ICO	ON	ST ENT RUBBER INDUST SPARE PARTS		586008.00 02/09/89
BIL-ATLANTA	EMU INC.	NY	ST ENT RUBBER INDUST SPARE PARTS		19400.00 02/09/89
GULF INTL BANK	ICO	NY	ST ENT RUBBER INDUST SYNTHETIC RUBBER		15400.00 02/09/89
GULF INTL BANK	ICO	RJ	ST ENT RUBBER INDUST GEAR BOXES		63140.00 02/09/89
GULF INTL BANK	ICO	RJ	ST ENT RUBBER INDUST SYNTHETIC RUBBER		92000.00 02/09/89
BONY	DOU CHEMICAL EUROPE	RJ	ST ENT RUBBER INDUST SYNTHETIC RUBBER		1650000.00 02/23/89
BIL-ATLANTA	TELMA INTL	IN	AGRI SUPPLIES CO	LOREHAM	1467060.00 04/11/89
ALGERHE BANK	SOLVACHEM	ON	MODERN PAINT INDUST	CEM RM MATERIALS	9712000.00 04/10/89
IRVING TRUST	ELI LILLY	ON	WATL CHEM PLASTIC	500 MT LID 1 80/200 I	1332500.00 04/11/89
ELI LILLY	ELI LILLY	ON	MIN OF DEFENSE	SILICON STEEL	4650000.00 05/11/89
ELI LILLY S.A.-SWITZ	CATERPILLAR	CA	MIN OF DEFENSE	INSULIM	85000.00 05/11/89
SWISS BK CORP	VAR SCIENTIFIC	CA	ST MACH TRADING CO	SPARE PARTS	975453.00 06/08/89
BIL-ATLANTA	GENERAL MOTORS	MI	AGRI SUPPLIES CO.	LAB EQUIPMENT	126848.00 06/27/89
BANK OF NY	AMER CAST IRON PIPE	AL	ST ENT AUTO INDUST	TECH SERVICES	14000000.00 03/08/90
BONY	PAIRKE DAVIS CO.	AL	GENL EST WATERB SEW	DUCTILE PIPE & FITTINGS	24923152.00 03/08/90
EMU INC.	EMU INC.	NY	MIN OF HEALTH	RETAILER	103997.00 03/08/90
EMU INC.	EMU INC.	NY	ST EST LENTHER INDUS MUGARD LIQUIC		8250.00 03/08/90
EMU INC.	EMU INC.	NY	ST EST LENTHER INDUS SHAMIC FITTING MACHINE		51000.00 03/08/90
EMU INC.	EMU INC.	NY	ST EST LENTHER INDUS SYNTHETIC RUBBER		110000.00 03/08/90
EMU INC.	EMU INC.	NY	ST EST LENTHER INDUS PIGMENT & TRIMMER		119840.00 03/08/90
SINGER PRODUCTS	DETUBING	NY	ST BATTERY MANUF ENT SPARE PARTS		12043.00 03/08/90
AL MADRID	MASSVILLE	PA	MISSAM ST SUGAR ENT	CAT SPARE PARTS	46557.00 03/08/90
YORK CO.	YORK	PA	SADAMAH ST EST	COOLING CHILLERS PARTS	11087.00 03/08/90
SINGER PRODUCTS	WESTBURG	NY	ST BATTERY MANUF ENT AUTO SPARE PARTS		32301.00 03/08/90
ARCH TRADING CO.	NC LEAN	VA	AG SUPPLIES CO.	LAB CHEMICALS	78922.00 03/08/90

1977 Transamerica Bonded Initial Amt \$2,000 / mo.

\$58 mm - Tire re-production approx -
 37 mm - ~~transamerica~~ iron pipe
 27 mm - Automobile, synthetic rubber, more accessories parts etc.

Background Information for Eximbank Hearing

Pressure on Eximbank to Extend Credit to Iraq

From the time the U.S. resumed diplomatic relations with Iraq in 1984, the Export-Import Bank was under tremendous pressure to provide Iraq with medium-term loans.

In 1985, the Eximbank opened for \$200 million in short-term insurance coverage of U.S. exports to Iraq. The short-term program insures exports to Iraq for up to one year.

Iraq was not satisfied with this offer. Iraq - backed by the U.S.-Iraq Business Forum and the State and Commerce Departments - placed tremendous pressure on the Eximbank to extend billions in medium-term loans (2-5 years) to cover U.S. imports.

Eximbank continued to fight this pressure. At one time Eximbank did offer a \$50 million dollar medium-term loan to Iraq, but Iraq was insulted at such a meager offering and it was never utilized.

Exporters placed tremendous pressure on the Eximbank to extend credit to Iraq. To get a feel for the money and jobs at stake, a list of proposed projects and the exporter seeking Eximbank financing is attached. These projects totaled \$12.9 billion.

Many Purported Reasons Given for Opening Business in Iraq

Exporters, trade groups, and the State and Commerce Departments, used many reasons why Eximbank should extend credit to Iraq.

In response, the Eximbank created a paper entitled, "Mythology About Iraq." This paper rebuts the arguments in favor of Eximbank opening business in Iraq. The paper is attached.

RECENT SERIOUS INQUIRIES CONCERNING LARGE IRAQI PROJECTS

August, 1988

DATE	PROJECT	COMPANY	TOTAL COST (\$ millions)	APPROXIMATE U.S. COSTS (\$ millions)
1987-88	Pipeline (IPSA II, 2nd Stage)	Various	\$1.5 billion	?
1987-88	Pipeline (3rd Turkish)	Various	\$400	?
1985-88	Bekhme Dam	Bechtel	\$3.2 billion	?
2/88	Fertilizer Complex	Kellogg	\$300	\$170
3/88	Automobiles (50,000?)	GM	\$750	\$750
6/88	Oil Field Expansion	Occidental	\$300	\$170
7/88	Irrigation Project	Valmont	\$50	\$50
1988	3 Power Stations	Westinghouse, Stone & Webster, Others	\$2 billion	\$1.5 billion
7/88	Trucks	Mack	\$75	\$75
7/88	Petrochemical complex	Various	\$2.5 billion	\$1.5 billion
1988	Various small manufac- turing plants (tires, air conditioners, pipe, etc.)	Various	\$10 to \$20 each.	?
8/88	Helicopter co-produc- tion Project	Bell Textron	\$400	\$400

R. Swart
August 23, 1988

Feb. 1984

APPENDIX I
IRAQ

<u>Project</u>	<u>Estimated Potential</u> <u>U.S. Costs</u> <u>(millions)</u>	<u>Potential U.S. Supplier</u>
Al Mussaib Power Project		
- Capital Goods	\$ 43.0	Not yet determined
- Design Work	14.0	C. T. Main
- Turbine Generators	159.0	Westinghouse
Daura Power Project		
- Boiler Portion	\$ 40.0	Combustion Engineering
- Turbine Generators	50.0	General Electric
Yusifiya Power Project	\$500.0	Combustion Engineering
-		General Electric
-		Combustion Engineering
		General Electric
Baghdad Metro (may be deferred)		
- Design	\$ 10.6	Deleuw Cathar
- Engineering/Procurement Construction Mgmt.	150.0	Bechtel
Oil Pipeline-Jordan		
- Construction		Foster Wheeler
- Engineering/Procurement/ Construction	?	Bechtel
Oil Field Equipment	\$ 8.0	Midland Int'l
Oil Field Equipment	\$ 10.0	Halliburton
Scanners & Computer for Shopping Mall	\$ 7.0	NCR
Arab Company for Detergent Chemicals	\$ 35.0	Combustion Engineering
Linear Alkyl Benzene Plant		
Oil and Gas Treatment Equipment	\$ 25.0	Howe-Baker Engineers
Turnkey Ammonium Storage Plant	\$ 6.0	Howe-Baker Engineers
Medical Systems	\$ 30.0	General Electric
Transmission Substations	\$ 25.0	General Electric
Poultry Farm Equipment	\$ 5.0	E. Holzer/Barco Int'l
Helicopters for Civilian Ambulance	\$300.0	Bell Helicopter/Lockheed
Service by Air Force		
Antibiotic Plant	\$ 30.0	Foster Wheeler
Feed Concentrates	\$ 13.0	Bankers Trust for Pillsbury
Total	\$1,510.6 million	

July 1988

MYTHOLOGY ABOUT IRAQ

MYTH #1: Iraq is one of the largest markets for U.S. exports in the developing world.

Reality: The myth of the Iraqi market is based on two or three years of huge imports around 1980. The Iraqi market was not among the largest before that, nor is it now. Iraq in 1987 was the 28th largest importer (of civilian goods) among non-OECD countries. An end to the war alone does not imply a financial bonanza for Iraq. The conditions existing in 1981--simultaneous 4 mb/d production and \$30 per barrel oil-- will not return. Any dramatic increase in imports depends on the uncertain prospect of substantially higher oil revenues and the willingness of creditors (such as Exim) to finance the creation of a larger Iraqi market.

MYTH #2: Because of its vast oil reserves, Iraq must be a highly creditworthy country.

Reality: Large oil reserves do not imply high oil revenues. Oil revenues depend on oil export capacity and oil prices. In spite of valiant efforts to boost oil export capacity, Iraq's oil revenues remain at half their level of the early 1980s. Neither oil export capacity, nor oil prices, are guaranteed to work in Iraq's favor in the future.

MYTH #3: Iraq is perfectly willing to repay creditors; it just does not have the ability to repay right now.

Reality: Because its debt has a short maturity structure, Iraq cannot pay all its debt service. Moreover, Iraq has an attitude problem regarding foreign debt. Iraq only fully repays creditors who offer large new loans. If creditors don't offer new loans, Iraq simply fails to pay, and demands bilateral rescheduling arrangements involving oil barter. This strategy permits Iraq to secure project financing, as well as pure BOP assistance.

MYTH #4: Iraq hit rock-bottom in 1986; since then, Iraq's finances have already gotten a lot better.

Reality: The oil price collapse (and Iranian military victories) of 1986 took the Iraqis by surprise; for a time, they weren't even answering communications from creditors. Today, they are better organized, but within an Iraqi context. Iraq has become more sophisticated in its calls for bilateral reschedulings, and in its cultivation of potential creditors (such as Exim).

MYTH #5: Iraq's financial problems are temporary; when the next oil pipeline opens up, things will get better.

Reality: Pipeline capacity has more than tripled since 1984, without significant effect on total oil revenues. Weak oil prices, caused in part by Iraq's larger output, offset volume increases. In the long run, oil revenues will depend on Iraq's ability to influence OPEC decisionmaking, to the detriment of moderates like Saudi Arabia. Iraqi attempts to increase oil export volumes may lead to lower world oil prices and thus dampen Iraq's own oil revenues.

Source: Export-Import Bank Country Risk Analysis Division

MYTH #6: The end of the war with Iran, and thus of Iraq's financial problems, is just around the corner.

Reality: The "cease-fire" does not guarantee an effective peace accord. Even if the war with Iran should formally "end", Iraq is not likely to ignore the continuing threats posed by Iran and the Kurds, and will not drastically reduce military spending. Furthermore, Iraq will undertake a costly reconstruction, at the expense of debt repayment. To sustain the benefits of playing one creditor off the next, Iraq will avoid a multilateral Paris Club rescheduling, and continue to use default as a device to secure continued financial assistance.

MYTH #7: Closer ties between the U.S. and Iraq will ensure Exim repayment, even if other creditors are not being paid.

Reality: Relations between Iraq and the U.S. are not guaranteed to be warm, because the principal U.S. interest in the region is not in supporting Iraq's objectives (a peace settlement which favors Iraqi border claims, and an end to the Kurdish threat), but in ending the Gulf War. Even if the U.S. offered political and material support to Baghdad, Exim repayment is still not guaranteed. Iraq does not fully repay countries (such as France, Italy, Japan, or Turkey) which have been important to Iraq's military or economic effort, because Iraq believes these creditors have already received a payback in the form of greater access to the Iraqi market. Iraq will view Exim credits as something the U.S. does in its own self-interest, not in Iraq's.

MYTH #9: Iraq pays CCC; the Iraqis believe we're all one government so they'll repay us, too.

Reality: Iraq pays CCC, and two other export credit agencies, because they have been offering consecutively larger programs of new medium-term credit. Nizar Hamdoun and other sophisticated observers of the American scene know that Exim and CCC do not speak with the same voice. If Exim becomes a "favored creditor", it is only because Baghdad believes that we too will eventually commit to larger and larger programs of long-term credit.

MYTH #10: Iraq is no less creditworthy than other heavily-indebted countries where Eximbank is open.

Reality: Creditworthiness has two components, ability and willingness. In the long run, Iraq may have greater ability to repay than many countries. However, Iraq has demonstrated a clear unwillingness to adopt normal debtor-creditor relations. Iraq is more aptly compared to Peru (which pays when it wants to), than to Yugoslavia (which makes a valiant effort) or Argentina (which at least pays lip service to the IMF and the Paris Club).

Overview of Eximbank Country Risk Analysis Process

A portion of the hearing will focus on the Export-Import Bank Country Risk analysis process. The Committee has asked the Eximbank to discuss the following:

Country Risk Analysis

- a. Using Iraq as an example, please explain the country risk analysis process at Eximbank.
- b. From your perspective, how was that analysis used in making decisions about Iraqi participation in Eximbank programs?
- c. What role do agencies such as the Central Intelligence Agency (CIA), the State Department, the Federal Reserve, etc., play in the country risk analysis process? How did these agencies influence your country risk analysis of Iraq?
- d. Did the BNL scandal influence the country risk analysis process at Eximbank?

The following section provides an overview of the Export-Import Banks position related to Iraq's creditworthiness during the period 1984-1990. Highlights of Eximbank country risk analysis have been included for each year.

1. The Export-Import Bank rarely considered Iraq creditworthy between 1984 and the invasion of Kuwait.
2. The State Department, Treasury Department, Commerce Department, U.S. Trade Representative, the CIA, and the Eximbank Board of Directors participated in most Iraqi country reviews.
3. During the years 1984-1990, Eximbank was under tremendous pressure from exporters such as General Motors, Bechtel, Mack Trucks, Westinghouse, General Electric, Combustion Engineering, Bell Textron Helicopter, Occidental Petroleum, and Kellogg.
4. The State and Commerce Department staffs were also pressuring Eximbank to do more business in Iraq. April Glaspie and the previous Ambassador to Iraq often visited or communicated with Eximbank to discuss extending medium-term loans to Iraq.
4. Note that there are several country risk analysis of Iraq in 1989. Eximbank staff have stated that they had to revisit the Iraq creditworthiness issue several times in 1989 mainly because of State and Commerce Department staff pressure to do more business in Iraq (see list of potential projects in Iraq).
5. Only once did the Eximbank Board actually approve medium term loans to Iraq - \$50 million. The Iraqi's considered this amount an insult and did not utilize that allocation.

Highlights of Export-Import Bank

Country Risk Analysis

Iraq

1989

MEMORANDUM TO THE BOARD OF DIRECTORS
Africa and Middle East Division

February 21, 1984

COUNTRY: Iraq

SUBJECT: Country review and recommendations for Eximbank's programs. (Country Appendix attached.)

BACKGROUND AND
COUNTRY SUMMARY:

Eximbank currently has no exposure in Iraq and has not been active in the country for more than a decade due to a number of reasons. Iraq broke diplomatic relations with the U.S. in 1967 at the time of the Arab-Israeli war, subsequently embargoed imports from the U.S. until 1973, and the country paid cash for most imports in the late '70s following the large oil price increases after 1974 and until 1981. Iraq was cited by the U.S. as a country linked to international terrorism from 1979 through March 1982 and as such there were more stringent requirements for obtaining U.S. export licenses.

Iraqi-U.S. Relations.

Iraq broke diplomatic relations with the U.S. in June 1967 at the time of the Arab-Israeli war. Since late 1971 the U.S. has been represented by a U.S. Interests Section in the Belgian Embassy in Baghdad.

In 1973 Iraq ended its political ban on U.S. and West German imports, deciding to separate its economic and political policies. In its desire to proceed as rapidly as possible with the country's economic development, Iraq turned toward using Western technology and capital imports. The rapid rise in Iraq's imports from the U.S. prior to the war with Iran - from just \$23 million in 1972 to \$724 million in 1980 - attested to the change.

The U.S. Government has been willing to resume full diplomatic relations with Iraq but the Iraqi Government has not been prepared to take this step to date.

International terrorism has been an issue in relations between the U.S. and Iraq. The Fenwick Amendment to the Export Administration Act of 1979 established more stringent rules for the granting of export licenses for U.S. exports to countries cited for supporting international terrorism. In 1979, Iraq along with Syria, Libya, and the People's Democratic Republic of Yemen was put on the list. Iraq remained on this list until March 1982 when the U.S. Departments of Commerce and State removed Iraq; Cuba and Iran were added.

Since the removal of Iraq from the list of countries supporting international terrorism and more recently with the war going against Iraq along with the Iranian threats toward blocking oil shipments in the Arabian Gulf, the U.S. has shown renewed interest in a peaceful solution to the conflict.

In December 1983, the U.S. Special Mideast Envoy, Donald Rumsfeld, visited Baghdad to urge restraint and to discuss ways the U.S. could be of assistance. Subsequently, the press reported that the U.S. was tilting toward Iraq.

The official U.S. position is one of neutrality in the war and of seeking a peaceful solution.

In the Staff's opinion, due to both unsatisfactory country economic conditions and the possibility of physical damage to new projects due to the ongoing war, there would not be reasonable assurance of repayment for any medium and long term transactions based solely on Iraqi security. Although Iraq has considerable oil reserves, these do not, by themselves, provide reasonable assurance of repayment. Until the war ends and satisfactory solutions are found as to who will control Iraq's government and how war reparations and debts will be paid, we could not find reasonable assurance of repayment for medium and long term transactions in the absence of satisfactory external security arrangements.

Since Iraq is still paying for some of its top priority items, such as foodstuffs, Staff could recommend modest amounts of short term FCIA insurance for these items. Because of the priority of such transactions and the short repayment, Eximbank support for these transactions would provide an opportunity to test this troubled market and support some exports while avoiding risks associated with lower priority, larger, longer term transactions.

External Debt

No official information is available on the amount of Iraq's current external debt. Various reports indicate that external debt at the end of 1983 was between \$37-50 billion. Of this amount, \$22-30 billion has been provided by Saudi Arabia and Kuwait since 1982 to cover balance of payments deficits and no information is available as to when or if these loans are to be repaid. As long as the war continues and without increased oil exports, the current account deficits of \$8-10 billion annually would add substantially to the external debt. Iraq has negotiated with contractors concerning payments due on cash contracts. It is understood that payments on these will be deferred until 1985 and payments will be spread over a three to five year period. Similar arrangements are being negotiated for payments due on cash contracts for 1984. New tenders from Iraq request deferred terms with no payments for two years even for such items as spare parts.

Balance of Payment Projections

Balance of payment projections for Iraq carry more than the usual hazards due to the on-going war, the lack of adequate base statistics, incomplete data on external debt, and pitfalls in estimating future oil production and prices. Nonetheless, the following scenarios are presented to show the order of magnitude of key elements and to help formulate an Eximbank policy for this market.

Foreign Exchange Reserves. Reflecting the large oil exports and balance of payment surpluses in the last half of the 1970's and through 1980, net foreign assets of the banking system rose from \$11 billion at the end of 1978 to \$37 billion at the end of 1980. Since then, they have declined to \$24 billion at the end of 1981 and to about \$6 billion at the end of 1982. A further erosion took place in 1983. While no precise figures are available, liquid foreign exchange might approach \$2 billion.

A general policy has emerged in Iraq towards the refinancing of foreign contractors. For contracts involving firms from industrialized countries whose military or financial support has been, and will be, crucial to the war effort, Iraq directly negotiates with the firms, or with home country governments or bank consortia. These countries include Japan, France, Germany, and Italy. The refinancing package typically includes a 1-3 year rescheduling of a certain percentage of the debts, cash payments for another certain percentage - and, increasingly, the lifting of crude oil as partial payment.

As for contracts involving firms from non-industrialized countries, Iraq informs contractors that financing will end and suggests that they turn to their home countries for financing. Iraq will not negotiate refinancing, because it does not wish to increase its debt to countries such as India or the Philippines, which have not been in a position to assist Iraq financially or militarily.

Cessation of hostilities with Iran is critical to Iraq's economic recovery. Unfortunately, no end to the war is in sight at this time. In addition, when the war does end Iraq will be faced with serious obstacles on its path to economic recovery. Paramount among these are repayment of sizeable debt accumulated during the war years and the ability to sell larger amounts of Iraqi oil.

Against this background of deteriorating economic conditions, rapidly increasing foreign debt, and continuing war, Eximbank has received many inquiries concerning the possibility of financing for transactions ranging from feed concentrates to large power plants.

If one continues to assume that the Gulf states will not - or cannot afford to - let Iraq collapse through economic attrition, it becomes clear that a big part of this debt will be financed by Iraq's neighbors. The flow of loans from the Peninsula states is currently reported to be around \$6 billion per year. Unless it increases to over \$10 billion per year during the next years, it is quite likely that Iraq will be forced to abandon more civilian projects, seek to reschedule its debts beyond 1985, and intensify its efforts to negotiate future payments in oil.

The CCC reports that Iraq is current on the 1983 CCC credit. The CCC is willing to take some risk in this market as Iraq is expected to be a potentially large market for U.S. agricultural sales. A few commercial banks contacted reported that they would consider only short term credits for Iraq currently. One bank reports very good experience working with the Iraqi Central Bank and with Rafidain Bank.

Berne Union members have recently reported on their attitude and experience. Two members are "off cover" for short term and seven are "off cover" for medium and long term. In certain cases there is a reduced percentage of cover offered and a few limit cover to non-war zones. Some delinquencies are reported and claims have been paid.

Medium-Term Outlook. Considering the low likelihood of the war ending in the near future, there are no grounds for optimism concerning the possibility that Iraq's foreign exchange problems may be alleviated anytime soon. With the Gulf terminals and the Syrian pipeline closed, Iraq's export potential will remain limited. Under the best circumstances - successful expansion of the Turkish pipeline capacity to around 960 thousands barrels per day by mid-1984, and continued Saudi and Kuwaiti oil sales credit to Iraq - Iraq may be able to expand its effective export volume to 1.1-1.3 million barrels per day by 1985. This, however, will by no means be sufficient to meet the increasing financial demands on the country.

During the period between 1983 and 1985, Iraq is projected to accumulate \$24.8 billion in current account deficits. In addition, there will be over \$1.5 billion of debt deferred to 1985 and 1988 alone. Thus, by the end of 1985, Iraq will find itself facing a debt of well over \$26 billion - possibly in the \$30-\$35 billion range. This amount does not include the soft loans that the Gulf states (Saudi Arabia, Kuwait, the UAE and Qatar) have made to Iraq so far.

RECOMMENDATIONS:

It is recommended that the following program be adopted until the war has ceased:

1. Supplier Credit Transactions.

Short-term: Consider requests for small amounts of essential imports on a case-by-case basis with a letter of credit issued by the Bank Rafidain or the Central Bank.

Medium-term: Discourage all requests unless a satisfactory external security arrangement can be provided.

2. Direct Credits and Financial Guarantees.

Discourage all requests unless a satisfactory external security arrangement can be provided.

**DR. DANIEL L. BOND
VICE PRESIDENT FOR COUNTRY RISK ANALYSIS
EXPORT-IMPORT BANK OF THE UNITED STATES**

**RESPONSE TO HOUSE BANKING COMMITTEE QUESTIONS
CONCERNING COUNTRY RISK ANALYSIS**

A. Using Iraq as an example, please explain the Country Risk Analysis process at Eximbank.

The Export-Import Bank Act states that all transactions supported by the Bank shall "...in the judgement of the Board of Directors, offer reasonable assurance of repayment...." Thus, when considering applications, the Board examines them for potential problems that could give rise to repayment delays or defaults.

The Bank's loan officers, engineers and lawyers advise the Board on potential commercial, engineering or legal problems that may arise from specific transactions. The Bank's country risk analysts advise on more general economic and political problems affecting payment that may arise in the country of the obligor or guarantor.

The country risk analysts examine both a country's ability and its willingness to repay foreign debts. Often, the focus of the analyses differs from country to country, because critical factors differ. In Iraq's case, the government's unwillingness to adopt normal standards of financial conduct was a very important consideration.

To deal with country risks the Board of Directors establishes for each country guidelines on country policy--which specifies whether there are any restrictions concerning the types of transactions the Bank is willing to undertake--and a country risk rating--which determines the exposure fee to be charged. Exposure fees vary according to the perceived risks and help to compensate the Bank for the risks it takes. In recent years, when Eximbank was allowed to undertake transactions in Iraq, the Bank had a very restricted country policy for Iraq--only short-term transactions up to a total exposure limit of \$200 million were allowed--and charged the highest level of exposure fees.

The country risk analysis process revolves around semi-annual reviews of all of Eximbank's potential markets. These reviews attempt to identify any recent changes in country credit-worthiness. If changes in country policy or country risk ratings are deemed necessary by the Country Risk Analysis Division, they are presented to the Bank's other Divisions and discussed at a ----

meeting of the Exposure Management Committee. This committee includes senior staff representing the various divisions of the Bank involved in export financing issues. The EMC then makes final recommendations to the Board of Directors at a formal Board meeting at which other National Advisory Council agencies are represented.

In addition to the semi-annual reviews, special inter-agency reviews are conducted for the more important or questionable markets, such as Iraq. For these briefings, a detailed, written country review is prepared by an Eximbank country risk analyst, and is reviewed by the Vice-President of Country Risk Analysis. The written review is distributed to members of Eximbank's staff, Board of Directors, and other U.S. government agencies. The review is then discussed in an interagency meeting, involving our Board of Directors and representatives of other U.S. government agencies. Interagency reviews on Iraq were held on the following dates: April 24, 1986; January 12, 1987; April 17, 1987; July 25, 1988; April 24, 1989; June 13, 1989; October 10, 1989.

B. From your perspective, how was that analysis used in making decisions about Iraq's participation in Eximbank programs?

In the case of Iraq, the Country Risk Analysis Division's Iraq country reviews led Eximbank's Board of Directors to the conclusion that adoption of larger, or longer-term, credit programs would not be a prudent move. Eximbank's Board wanted to avoid lending successively larger amounts of new money to Iraq, because we did not want to fall into the financial trap that Iraq had set for other export credit agencies. Furthermore, we had very little confidence in Iraq's longer-term ability to service its growing debt burden, since so much of its foreign borrowing was being used to build up the country's military rather than to improve future export capabilities. All of this is detailed in these country reviews.

C. What role do agencies such as the Central Intelligence Agency (CIA), the State Department, the Federal Reserve, etc., play in the country risk analysis process? How did these agencies influence your country risk analysis of Iraq?

Eximbank receives a great deal of information on countries from these agencies, and our country risk analysts are in frequent contact with their country specialists. However, these agencies have no direct role in the preparation of the written risk analysis documents.

When the EMC makes recommendations on changes in country policy or country risk ratings, these are distributed to the key NAC members for official comment. The agencies also send



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representatives to Eximbank's Interagency Country Reviews, and the principal NAC members attend our formal Board meetings.

We always encourage these agencies to comment on our analysis, and often their representatives do make comments. There are permanent representatives of the principal NAC agencies who attend Eximbank's country reviews. Also, the desk-officers of the various agencies, such as the State or Commerce desk officers, usually attend Eximbank's interagency reviews.

D. Did the BNL scandal influence the country risk process at Eximbank?

No. However, numerous press reports of the BNL scandal did serve as yet another indication of the financial games played by the Iraqi government.

E. How could Eximbank's country risk analysis process be improved?

Eximbank is always trying to improve the quality of our country risk analyses. However, the Board of Directors thinks that our current procedures have worked well and has no plans to change them at this time.